2014 Annual Report

CanElson Drilling Inc.

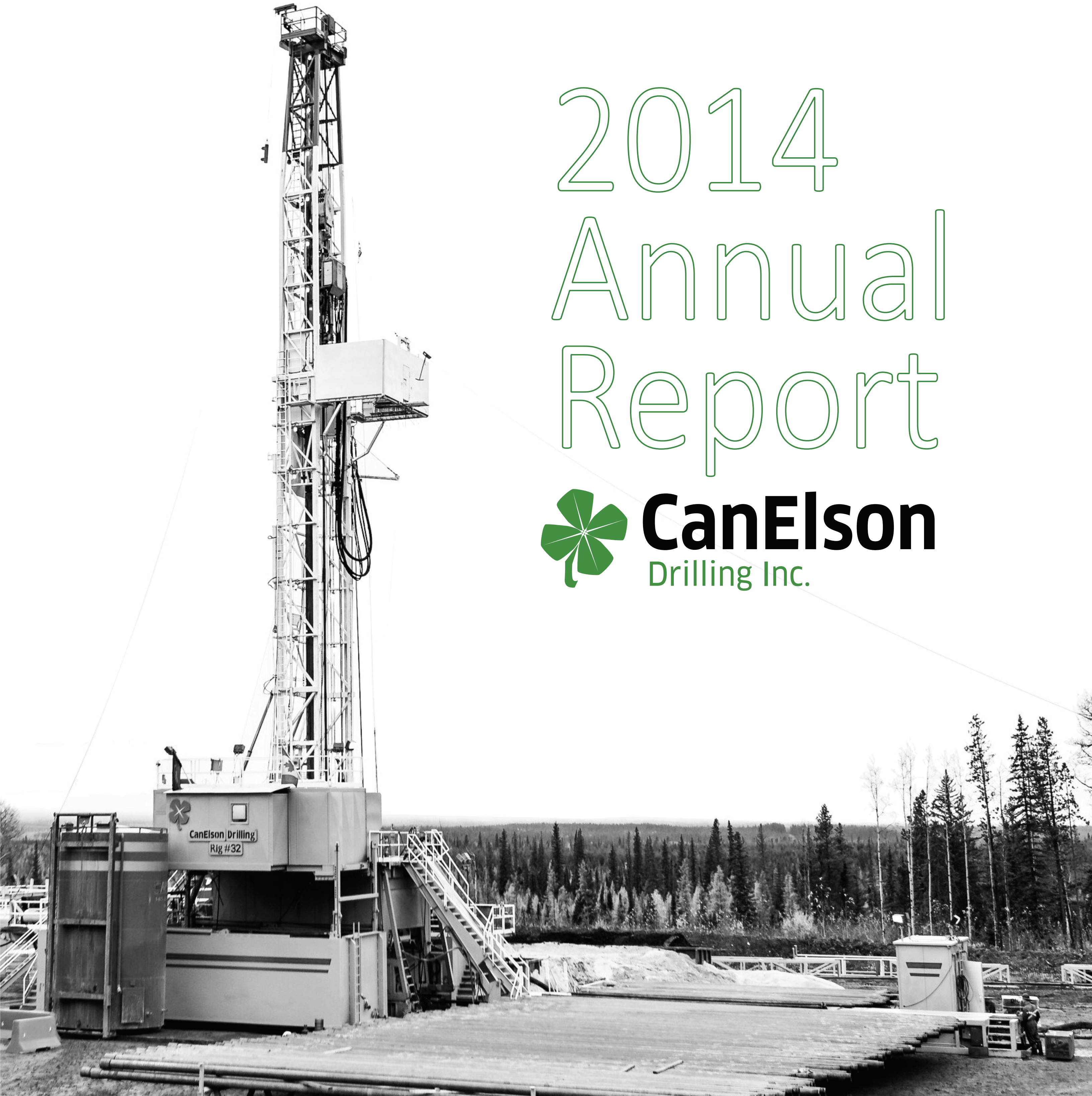


Table of Contents

Forward-Looking Information:
This Annual Report contains forward-looking information in the Corporation's vision and mission statement and "Report to Shareholders" section including statements regarding: our primary corporate objectives. This forward-looking information involves material assumptions and known and unknown risks and uncertainties, certain of which are beyond the Corporation's control. Those assumptions include: changes to the regulatory environment in areas targeted for expansion; access to quality people for growth; and availability of suppliers to support our ongoing rig construction program. Further, there are risk factors and uncertainties that could cause the Corporation's actual results, performance or achievements to differ materially from the forward-looking information, including the risks set out in the "Risks and Uncertainties" section within the MD&A, contained in this Annual Report. The Corporation's 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 the Corporation will derive therefrom. The forward-looking information is made as at the date of this Annual Report and the Corporation 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.

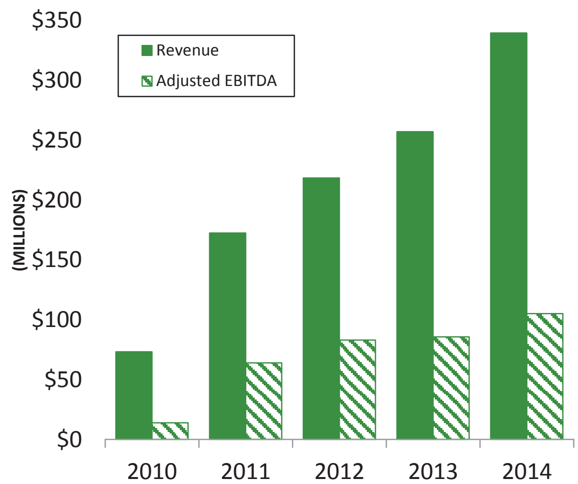
Who We Are

The primary business of CanElson (TSX: CDI) is operating land-based contract drilling rigs in Canada and the US for oil and natural gas exploration and development companies. The Corporation also has a 50% ownership interest in a joint venture, Diavaz CanElson de Mexico, S.A. de C.V. ("DCM"), whose primary business is operating land-based contract drilling and service rigs in Mexico. CanElson also provides compressed natural gas ("CNG") and raw gas transportation ("RGT") services through its wholly owned subsidiary, CanGas Solutions Inc. ("CanGas").

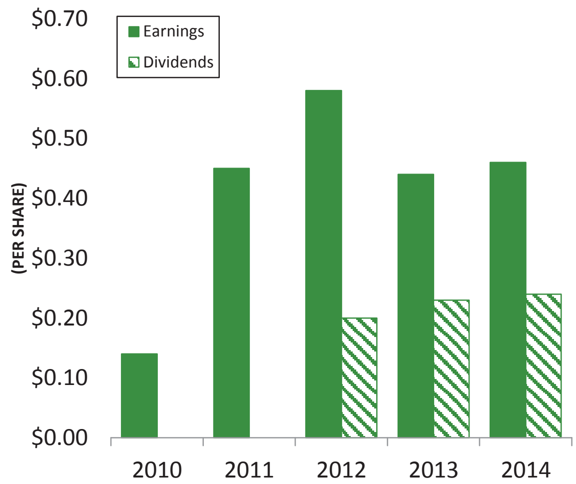
CanElson's objective is to provide customers with lower overall well costs while still delivering industry leading financial results for shareholders on a full cycle basis by leveraging our extensive exploration and production experience, oilfield services knowledge, capital discipline and fleet of modern purpose-built, high efficiency drilling rigs.

Financial Snapshot

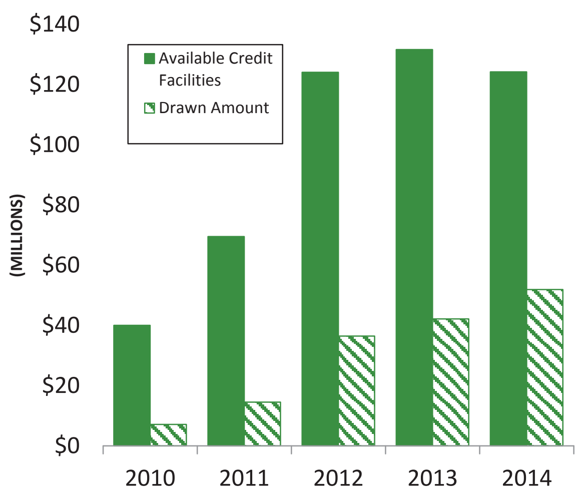
Revenue and Adjusted EBITDA



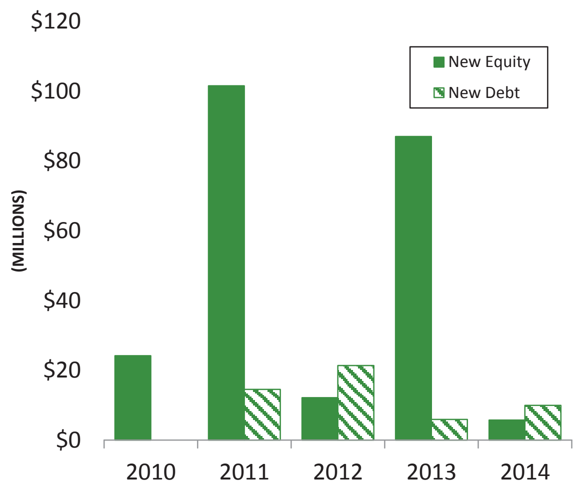
Earnings per share and Dividends



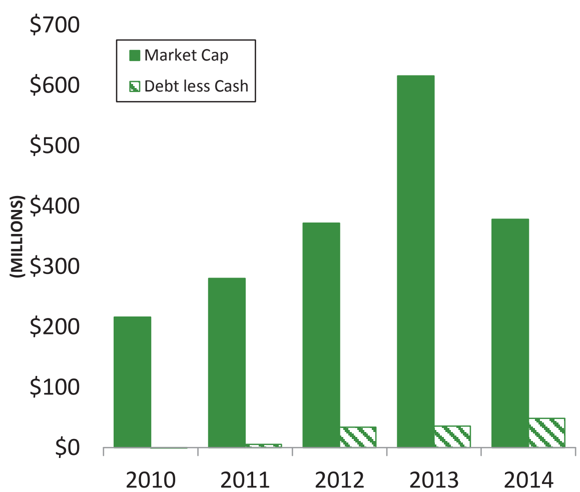
Credit Facilities



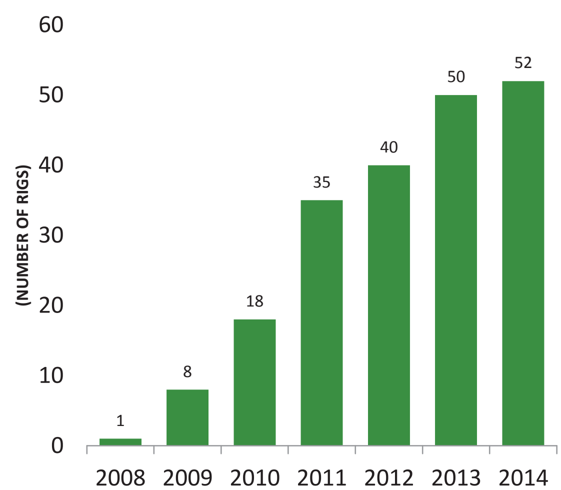
New Capital



Enterprise Value



Number of Rigs



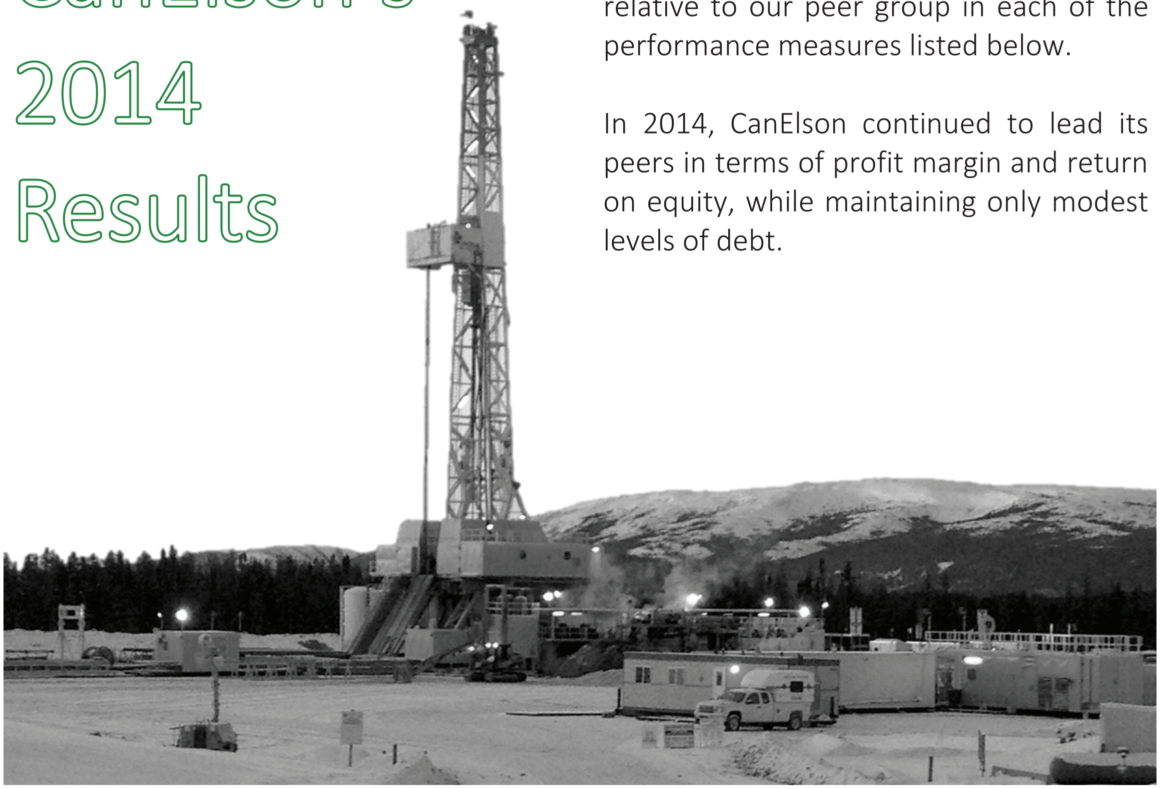
CanElson Drilling Inc.

Performance Measurement

Measuring CanElson's 2014 Results

We encourage our shareholders to measure our performance in the context of our Canadian drilling contractor peer group. Our goal is to be number one relative to our peer group in each of the performance measures listed below.

In 2014, CanElson continued to lead its peers in terms of profit margin and return on equity, while maintaining only modest levels of debt.



For the year ended December 31,	2014 (Rank out of 8)[2]	2013 (Rank out of 8)	2012 (Rank out of 10)	2011 (Rank out of 8)
Adjusted EBITDA % Adjusted EBITDA[1] divided by gross revenue	31.0% (3rd)	33.4% (1st)	38.1% (1st)	35.3% (3rd)
Gross Margin % Gross margin[1] divided by gross revenue	38.7% (3rd)	41.1% (1st)	45.1% (1st)	41.5% (3rd)
Profit Margin % Net income divided by gross revenue	14.5% (1st)	16.4% (1st)	21.7% (1st)	18.1% (2nd)
Return on Equity Net income divided by trailing four quarter average equity	10.4% (1st)	11.0% (2nd)	16.4% (1st)	13.9% (2nd)
Funds flow to PP&E Funds flow[1] divided by period end PP&E	21.2% (2nd)	20.2% (2nd)	27.0% (2nd)	24.8% (2nd)
G&A as a % of Revenue Admin expense divided by gross revenue	7.7% (7th)	7.7% (2nd)	7.0% (6th)	6.2% (2nd)

(1) Adjusted EBITDA, gross margin and funds flow are not measures that have prescribed meanings by International Financial Reporting Standards and are therefore referred to as non-GAAP measures. The non-GAAP measures used by CanElson may not be comparable to other companies. For further information and explanation, see the "non-GAAP measures" in the Management's Discussion & Analysis.

(2) CanElson's peer group includes Akita Drilling Ltd., Ensign Energy Services Inc., Precision Drilling Corp., Savanna Energy Services Corp., Trinidad Drilling Ltd., Western Energy Services Corp., and Xtreme Drilling and Coil Services Corp.

Source: Annual financial statements for CanElson Drilling Inc. and its Canadian drilling contractor peers.

Report to Shareholders

In 2014, CanElson generated financial and operating results which remain among the best in its peer group, thanks in large part to our people. Their hard work is the single most important factor in the overall performance of our Company.

Specifically in 2014, we were able to continue our peer group outperformance as evidenced by the following:

- In Canada, we achieved drilling utilization that was 1.36 times better than industry average.
- In the US, we generated a 15% increase in operating days for the year, compared with a year earlier.
- We achieved top tier Return on Equity of 10%, including modest asset write-downs, and our year end net debt level was equal to 0.4 times our 2014 EBITDA [(1)].

We have made significant reductions to our cost structure in recent months, including a 70% reduction of our capital program, a 50% reduction of the dividend and a 20% reduction of executive and board of directors compensation, and we are now in a position to maintain the one of the strongest balance sheets in the peer group. The following two principles which have origins in our safety culture and have permeated throughout the entire organization, will guide CanElson going forward:

1. DOING THE RIGHT THING ALL THE TIME

Doing the right thing all the time means acting with integrity, facing problems head-on, not cutting corners, and putting thought into every decision. On the rig, this approach reduces safety incidents and maintains a high level of performance for our customers. Management uses this strategy to achieve the following:

- **Retain Top Employees:** The most critical part of our business is attracting, training, motivating, and retaining top performing people. Their daily contributions are a vital component of being measurably more efficient than our peers. Retaining our top performing people in the current market environment will be achieved by:
  - Maintaining a close connection between the senior executive and the field through frequent rig visits and the encouragement of communication across the company;
  - Generating above industry activity levels to ensure consistent work; and
  - Cultivating a culture with an unrelenting commitment to the health and safety of all our employees.
- **Retain Top Customers:** We are fortunate to have a diverse customer mix ranging from national oil companies to large capitalization and low-cost intermediate producers to well capitalized junior and private companies. The extent of the current downturn and the timing of an eventual recovery are uncertain; however, one thing that is certain is the value of customer relationships, which we will actively maintain by:
  - Providing a high level of service and a focus on performance;
  - Working with our customers to identify and execute on efficiency improvements;
  - Continuously reaching out to new and existing customers;
  - Remaining flexible with our service offering, including the migration of, and change to, contracts to better suit customer needs and our Company requirements; and
  - Creating win-win partnerships.

(1) See "non-GAAP measures in the Managements Discussion & Analysis

2. STAYING OUT OF THE LINE OF FIRE

On CanElson drilling rigs, we encourage our employees to ask themselves if they are "in the line of fire" when performing critical tasks and we provide them with best practices in order to mitigate the risks of the job. This encourages an awareness of one's surroundings. Operating tongs, making pipe connections, lifting drill pipe and many other drilling rig activities feature inherent safety risks. At the corporate level, CanElson's board of directors is committed to mitigating the risks of running a drilling company and ensuring that the Company as a whole stays out of the line of fire. Corporately, we will continue to *stay out of the line of fire* by:

- Maintaining only modest levels of debt;
- Maintaining high return thresholds for new capital deployment;
- Performing critical maintenance on our equipment throughout the cycle to ensure the longevity of our drilling rig fleet'
- Continuing to build the right kind of drilling rigs for the job; and
- Continuing to foster career development and advancement for our top performing employees.

HOW THIS TRANSLATES INTO FINANCIAL PERFORMANCE FOR OUR SHAREHOLDERS

Efficiencies are only valuable to our shareholders if we can translate them into financial returns. While we recognize that the oilfield services industry is cyclical, we believe that our shareholders deserve top decile returns throughout the full cycle.

In 2014 our Return on Equity ("ROE") based on our average shareholders' equity was 10.4% (2013: 11.0%). We accomplished this while maintaining very low levels of debt leverage, thereby providing flexibility for future growth.

ACKNOWLEDGEMENTS

For more insight into our 2014 results and outlook for 2015, I invite you to review our MD&A and audited financial statements.

Our efficiency and performance is directly attributable to the hard work of our employees, management team, and Board of Directors. They have earned our thanks and gratitude once again. I would also like to thank our customers and you, our shareholders, for your continuing support.

I would also like to take a moment to thank Don Seaman, who will not be standing for re-election on our Board of Directors this year. His mentorship and guidance have been invaluable to CanElson.

RANDY HAWKINGS
President and CEO

Our Commitment to Safety

CanElson has an obligation to its employees to ensure they are working in a safe environment, and it is something that the Board of Directors and management team takes very seriously. All of the senior operations management team members and several members of the Board of Directors have extensive work experience on drilling rigs. In 2014, CanElson renewed its safety branding in 2014 with the following two messages for our staff on the rig floor.

1. Do the right thing all the time.
2. Are you in the line of fire?

While simple messages, they are a constant reminder to make an assessment of hazards when performing critical tasks.

Our Commitment

CanElson's independent Health, Safety, and Environment ("HSE") Committee on its Board of Directors reviews every incident, including near misses. This review is reported to the balance of the Board of Directors.

Measuring Our Results

In 2015, CanElson has a weighted average insurance rate discount of approximately 24% relative to the respective industry averages (source: jurisdictional workers compensation insurance reports). We believe that this figure is the most comprehensive measurement of safety performance, as the insurance rate is calculated by combining both the frequency and severity of accidents. This methodology differs from the common industry statistical benchmark of Total Recordable Incident Frequency (TRIF, or its USA equivalent, Recordable Incident Rate), which relies on a consistent methodology of reporting safety incidents among individual drilling contractors and does not reflect the severity of accidents.

Our Dividends From Safety

At CanElson, we believe a safe operation reflects better training, better equipment, better efficiency, and results in higher profits. A generation ago, the people who comprise CanElson's management team were coached in getting home safely from the rigs. It is now our responsibility to do everything possible to ensure that our people get home safely, and this responsibility is taken very seriously.

Workers
Comp Costs

24%

less than Industry
Average

Founder Profiles

Over 85 Years of Combined Industry Experience

Elson J. McDougald

Executive Chairman

- Founding CEO and Chairman of Western Lakota Energy Services, Tetonka Drilling Inc. & Laredo Drilling Inc.
- Progressively promoted from Roughneck to Administration Manager at Westburne Drilling

Randy Hawkings

President & CEO, Director

- COO of Western Lakota Energy Services
- Worked as a drill site, drilling, completion and reservoir Engineer at various oil and gas companies

Primary Objectives

2014 was another successful year for CanElson. As industry circumstances changed in late 2014, management energetically re-aligned the company with the new industry environment featuring much lower oil and gas commodity prices. As a result, not all of our original 2014 objectives were fully achieved but we entered 2015 in a strong financial position with a modern fleet of drilling rigs that operate competitively in the current economic environment.

Objective	2014 Actual Results	Status
Provide customers with lower overall well costs	Executed on several cost saving initiatives with customers including: diesel displacement, vertical pre-set drilling, contract migration and ongoing top tier drilling performance.	Achieved
Expand our standard tele-double fleet, including AC rigs	Delivered four standard tele-doubles in 2014 and one AC tele-double early in 2015.	Achieved
Expansion of our offering in Mexico	Energy reform in Mexico combined with low commodity prices has increased uncertainty relating to near-term activity levels and, therefore, we have deferred expansion efforts in this operating area.	Deferred
Continue to form new strategic long-term business relationships	Toward the end of 2014, as crude oil pricing declined, our focus was on maintaining existing customer relationships for the long-term as well as developing new relationships that we were previously unable to pursue due to the lack of available rigs to deploy.	Achieved
Continued growth through strategic acquisitions	Our focus heading into 2015 is to maintain balance sheet strength in a declining and uncertain activity level environment.	Ongoing

In 2015, 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. We intend to carry out the following activities to further enhance our competitive positioning:

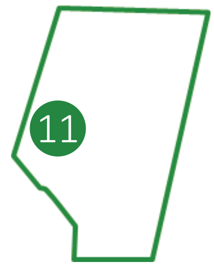
- Continue to expand our modern drilling rig fleet through organic builds (subject to securing suitable customer commitments) and/or the evaluation of mergers and acquisitions;
- Optimize the rig fleet composition to meet our customers' needs;
- Continue to form innovative long-term business relationships;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

Asset Overview | 52 Rigs

British Columbia

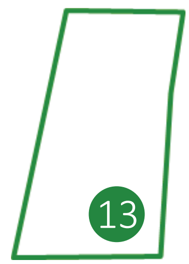
- Two mechanical tele-doubles
- One AC tele-double
- Two AC triples
- All rigs have top drives

Alberta



- Nine mechanical tele-doubles
- One AC tele-double
- All tele-doubles have top drives
- One single

Saskatchewan

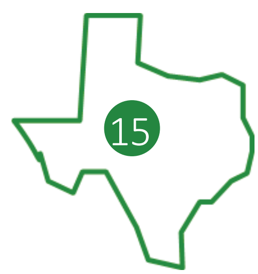


- Thirteen mechanical tele-doubles

North Dakota

- Two triples: 1 SCR and 1 mechanical
- Four doubles: 3 telescoping and 1 jackknife
- One tele-double has a top drive

Texas



- Fourteen mechanical tele-doubles
- One AC triple with a top drive
- Five tele-doubles have top drives

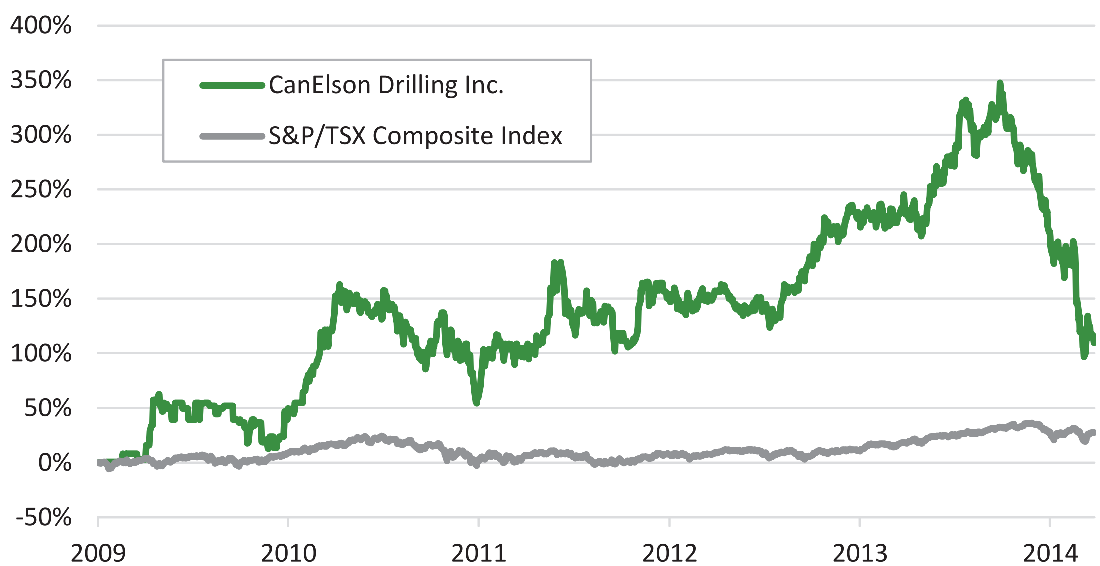
Mexico

- Two tele-double drilling rigs
- Two service rigs

Share Price Performance

CanElson (CDI) Share Price Performance & Volumes

CanElson (CDI) Relative to the S&P TSX Composite Index



MANAGEMENT'S DISCUSSION AND ANALYSIS

At February 26, 2015

This Management's Discussion and Analysis ("MD&A") for CanElson Drilling Inc. and all of its subsidiaries and its joint venture company (collectively "CanElson" or the "Corporation" or "we" or "us" or "our") should be read in conjunction with: (1) the audited December 31, 2014 consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"); (2) the audited December 31, 2013 consolidated financial statements prepared in accordance with IFRS; (3) the December 31, 2013 MD&A and (4) the Annual Information Form for the year ended December 31, 2014. Our December 31, 2012 consolidated financial statements were prepared in accordance with IFRS. Additional information regarding CanElson, including our Annual Information Form, is available on SEDAR at www.sedar.com.

All tabular amounts are denominated in Canadian dollars unless otherwise identified and are stated in thousands, except for: per share amounts, number of drilling rigs, operating days, and depths in metres.

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

CORPORATE OVERVIEW

The primary business of CanElson (TSX: CDI) is operating land-based contract drilling rigs in Canada and the US for oil and natural gas exploration and development companies. The Corporation also has a 50% ownership interest in a joint venture, Diavaz CanElson de Mexico, S.A. de C.V. ("DCM"), whose primary business is operating land-based contract drilling and service rigs in Mexico. CanElson also provides compressed natural gas ("CNG") and raw gas transportation ("RGT") services through its wholly owned subsidiary, CanGas Solutions Inc. ("CanGas").

CanElson's objective is to provide customers with lower overall well costs while still delivering industry leading financial results for shareholders on a full cycle basis by leveraging our extensive exploration and production experience, oilfield services knowledge, capital discipline and fleet of modern purpose-built, high efficiency drilling rigs.

Drilling Services

The Drilling Services Division operates drilling rigs and sells interests in drilling rigs to selected business relationships involving the Corporation. The business of the Drilling Services Division also includes assembling new drilling rigs at its facility in Nisku, Alberta.

The drilling rigs in our Drilling Services Division are wholly owned except as follows:

1. In Canada, CanElson has three partnerships with First Nations organizations, which each own and operate one drilling rig as follows:
    a) 50% owned, CanElson 120601 Drilling Limited Partnership #1 ("LP #1");
    b) 54.4% owned, CanElson 120601 Drilling Limited Partnership #2 ("LP #2"); and
    c) 50% owned CanElson 120601 Drilling Limited Partnership #3 ("LP #3").
2. In the US, 50% owned Midland C Ranch Holdings, LLC ("Midland") owns and operates three drilling rigs in Texas with an oil and gas operator.
3. In Mexico, CanElson has a 50% ownership interest in a joint venture, DCM, which owns two drilling and two service rigs.

CanElson fully consolidates financial results from LP #1, LP #2, LP #3 and Midland, and recognizes the non-controlling interest in the financial statements. DCM is accounted for using the equity method.

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%

2014 rig deployment activity

In Canada, CanElson deployed one newly constructed wholly owned tele-double drilling rig to north east British Columbia and deactivated one single drilling rig in the first quarter of 2014. In the second quarter, CanElson transferred a drilling rig from its Alberta operations to North Dakota. In the US, CanElson deployed a newly constructed tele-double drilling rig to a customer in Texas under a long-term contract in the first quarter, and a second newly constructed drilling rig to a customer in Texas in the third quarter. The US fleet is now at 20 rigs (net 18.5), including 14 in Texas and 6 in North Dakota.

Drilling rig fleet specifications

CanElson's drilling rig fleet comprises 42 (net 39) telescopic double drilling rigs rated from 3,500 to 4,400 metres true vertical depth (greater than 5,000 metres measured depth), 3 (net: 2) double drilling rigs rated between 2,500 and 3,200 meters, 4 triple drilling rigs rated between 5,000 meters and 6,300 meters true vertical depth, and 1 single drilling rig rated up to 1,700 meters. The Corporation's rig fleet has an average age of 5.6 years, average vertical depth rating of greater than 4,000 metres, and 96% of the rigs are suitable for drilling long-reach horizontal wells.

Rig fleet contract status

Our fleet is primarily focused on drilling oil and liquids resource wells in North America's most active basins. At the date of this MD&A, 60% (February 27, 2014: 100%) of the drilling rig fleet was committed to a customer. Additionally, 16% (February 27, 2014: 38%) of the drilling rig fleet has a long-term contract with an average term greater than one year. Since the date of our last MD&A (November 6, 2014), many of our contracted rigs have fallen below the one year threshold. Of the 60% of drilling rigs that are committed, the average term remaining is 0.9 years. Due to current commodity price weakness, the terms of many contracts have not been extended.

We offer drilling rig contracts based on day rates, performance, or a combination of both. Performance contracts (typically involving a charge for depth drilled or for a complete turnkey project) assume more risk. We believe our significant experience in drilling risk management results in these arrangements typically providing higher gross margins than day rate contracts. At December 31, 2014 approximately 14% (December 31, 2013: 16%) of our drilling rig fleet was operating under performance contracts, all of which were operating in the Permian Basin. However, at the date of this MD&A, CanElson has one drilling rig working on performance based projects, as our customers now have additional capacity of engineering personnel internally, due to reduced activity levels, to handle drilling optimization.

CanGas Solutions Inc.

CanGas provides a number of unique services requiring processing and transportation of CNG, including: the transportation of high pressure processed natural gas to remote sites and the collection of low pressure raw natural gas which would otherwise be flared.

The CanGas fleet of equipment includes 33 CNG trailers with payload capacities of 100,000 to 285,000 cubic feet of natural gas and 11 portable compression units, as well as related loading and unloading equipment.

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	2014	2013	% Change
Services revenue	$ 3,129	$ 3,177	(2)%	$ 11,917	$ 7,410	61 %
Gross margin	655	993	(34)%	4,405	2,817	56 %
Adjusted EBITDA	220	214	3 %	2,179	466	368 %

Revenue, gross margin, and Adjusted EBITDA increased for the year ended December 31, 2014 relative to the prior year, due to increased demand from third party customers. As the CanGas results are not yet material to the overall Corporation's results, they are included in the Drilling Services Division and no further financial analysis is presented within this MD&A.

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. At the date of the MD&A, 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. At the date of the MD&A, 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. At the date of the MD&A, 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. At the date of the MD&A, 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. At the date of the MD&A, 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: Spare equipment facility & overhead	Drilling Services: Upgrades & maintenance	Drilling Services: Expansion	CanGas	Total
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 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 CanElson 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 recertifications 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

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. 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.

FINANCIAL SUMMARY

	For the three months ended December 31,			For the year ended December 31,			
	2014	2013	% change	**2014**	2013	% change	2012
Services revenue	**$ 90,553**	$ 81,073	12 %	**$ 339,529**	$ 257,004	32 %	$ 218,445
Adjusted EBITDA	**$ 29,343**	$ 26,200	12 %	**$ 105,131**	$ 85,751	23 %	$ 83,137
Share of joint venture profit	**$ (193)**	$ 676	nm	**$ 2,681**	$ 1,776	51 %	$ 1,135
Net income attributable to Shareholders of the Corporation	**$ 10,846**	$ 10,586	2 %	**$ 42,586**	$ 35,558	20 %	$ 43,582
Net income per share							
Basic	**$ 0.12**	$ 0.12	— %	**$ 0.46**	$ 0.44	5 %	$ 0.58
Diluted	**$ 0.12**	$ 0.12	— %	**$ 0.46**	$ 0.43	7 %	$ 0.58
Cash dividends per share	**$ 0.06**	$ 0.06	— %	**$ 0.24**	$ 0.23	4 %	$ 0.20
Funds flow	**$ 29,420**	$ 25,844	14 %	**$ 105,199**	$ 85,381	23 %	$ 83,197
Gross margin	**$ 35,966**	$ 31,429	14 %	**$ 131,400**	$ 105,631	24 %	$ 98,470
Weighted average diluted shares outstanding	**$ 93,070**	$ 90,376	3 %	**$ 93,312**	$ 82,526	13 %	$ 75,514

nm – calculation is not meaningful

As at December 31, 2014 and December 31, 2013	**2014**	2013	% Change	2012
Current assets	**$ 70,369**	$ 79,170	(11)%	$ 54,248
Total assets	**614,359**	546,806	12 %	399,573
Trade payables, accrued liabilities and current taxes payable	**28,059**	26,720	5 %	20,063
Current deferred revenue	**406**	1,532	(73)%	856
Current portion of loans and borrowings	**4,885**	17,163	(72)%	11,483
Current liabilities	**33,350**	45,415	(27)%	32,772
Non-current deferred revenue	**902**	1,450	(38)%	1,883
Non-current portion of loans and borrowings	**46,848**	24,608	90 %	24,400
Total non-current liabilities	**123,419**	82,481	50 %	64,738
Equity attributable to shareholders of the Corporation	**434,773**	395,746	10 %	285,932

Three months ended and year ended December 31, 2014 compared with 2013 and 2012

The average net rig fleet size for the three months and year ended December 31, 2013 increased by 9% and 15%, respectively. EBITDA increased more than proportionately to the increase in the average net rig fleet size, 12% and 23% for the three month and year ended December 31, 2014 results, as a result of the increase of the US dollar relative to the Canadian dollar in the fourth quarter, as well as higher full year Canadian utilization levels. Earnings per share were flat in the fourth quarter and up slightly for the full year results, relative to the comparative periods in 2013 as a result of an increased weighted average share count. Financial and operating results for 2014 and 2013 vary significantly from 2012 due to the significant increase in the Corporation's drilling rig fleet (2012 average number of available net drilling rigs: 33.3 rigs). However, EBITDA margins were stronger in 2012 relative to 2013 and 2014 due to stronger demand for drilling services. As a result, earnings per share was also stronger in 2012 relative to 2013 and 2014. Earnings per share in 2013 and 2014 were also negatively impacted by higher weighted average shares outstanding relative to 2012.

Rig Fleet Changes

The following table shows the expansion of the rig fleet expressed in terms of average rigs available for operation:

	For the three months ended December 31,			For the year ended December 31,			
	2014	2013	% change	**2014**	2013	% change	2012
Average number of available drilling rigs (gross)	**50.0**	46.1	8 %	**48.2**	42.2	14 %	35.1
Average number of available drilling rigs (net)	**47.0**	43.1	9 %	**45.2**	39.4	15 %	33.3

SEGMENT REVIEW

CanElson's Drilling Services Division operates in two geographic segments: Canada and the US. The Corporation's Canadian geographic segment also holds a 50% investment in a joint venture, DCM, which conducts operations in Mexico and is accounted for using the equity method.

Canadian Segment

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Drilling rigs						
Opening balance	**28**	26		**29**	23	
Constructed and deployed	**—**	1		**1**	2	
Acquired	**—**	2		**0**	5	
Deactivated	**—**	—		**(1)**	—	
Re-deployed to US	**—**	—		**(1)**	(1)	
Ending balance (i)	**28**	29	(3)%	**28**	29	(3)%
Operating days (spud to rig release)	**1,430**	1,648	(13)%	**6105**	4706	30 %
Utilization (ii)	**56 %**	66 %	(15)%	**59 %**	53 %	11 %
Horizontal wells %	**100 %**	94 %	6 %	**94 %**	94 %	— %

i. Ending balance of drilling rigs in the Canadian operating segment for 2014 includes 3 (net: 1.5) drilling rigs associated with 3 partnerships in south east Saskatchewan and Manitoba.
ii. Utilization excludes rig moving days and is based on spud to rig release days only.

In the fourth quarter, 25 of the 28 drilling rigs in the Canadian rig fleet were tele-doubles substantially focused on drilling horizontal wells to measured depths up to 6,300 meters. Of the three remaining rigs, two are AC triples, which operate in British Columbia. The fleet operates in two core areas with 13 rigs operating in the oil weighted Bakken and Spearfish resource plays of Saskatchewan and Manitoba and 15 rigs primarily focused in the oil and liquids resource plays of Alberta and north east British Columbia.

For the three months ended December 31, 2014, CanElson achieved utilization levels of 56% which is below the prior year period utilization level of 66%, with activity levels decreasing materially in mid-December. For the year ended December 31, 2014, CanElson achieved utilization levels of 59% which is above the respective prior year period utilization levels of 53%, primarily as a result of strong activity throughout spring break-up. The fourth quarter and year ended utilization levels exceeded the average industry utilization by 1.34 times and 1.36 times, respectively (source: CAODC).

US Segment

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Drilling rigs						
Opening balance	**20**	17		**17**	14	
Constructed and deployed	**—**	—		**2**	2	
Release of subcontracted drilling rig	**—**	—		**—**	—	
Redeployed from Canada	**—**	—		1	1	
Ending balance (i)	**20**	17	18 %	**20**	17	18 %
Operating days (spud to rig release) (ii)	**1,574**	1,350	17 %	**5,648**	4,918	15 %
Utilization	**86 %**	86 %	— %	**83 %**	83 %	— %

i. Ending balance of drilling rigs in the US operating segment for 2014 includes 3 (net: 1.5) associated with a partnership in Texas
ii. Utilization excludes rig moving days and is based on spud to rig release days only.

The US segment operates in two of the most active basins with 14 rigs in the Permian Basin and 6 rigs in the Williston Basin (North Dakota Bakken and Montana). For the three months and year ended December 31, 2014, CanElson achieved utilization levels of 86% and 83%, respectively, flat to the prior periods.

Revenue and Operating Expenses

	For the three months ended December 31, 2014	2013	% Change	For the year ended December 31, 2014	2013	% Change
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 %
Operating expenses per day	18.28	16.56	10 %	17.71	15.73	13 %

Canadian Segment

Revenue for the three months ended December 31, 2014 decreased by 11% compared to the prior year, as commodity prices continued to weaken, resulting in reduced activity levels starting in mid-December. For the year ended December 31, 2014, revenue increased by 32%, compared to 2013, resulting from a higher number of total operating days, primarily driven by two additional drilling rigs acquired from Highkelly Drilling Ltd., a full year of contribution from the two active drilling rigs acquired from Calmena Energy Services Inc., the deployment of Rig #44, a new tele-double drilling rig, and several of our customers electing to drill through spring break-up.

US Segment

Revenue in the US segment for the three months and year ended December 31, 2014 increased by 44% and 32%, respectively, compared to the prior periods in 2013, primarily due to a 17% and 15% respective increase in operating days, as well as the strength of the US dollar compared to the Canadian dollar. The increase in operating days was primarily the result of an expanded drilling rig fleet. Revenue per operating day increased primarily due to an increase in the strength of the US dollar compared to the Canadian dollar, and a new pricing structure for footage wells in Texas, arising from a regulatory change requiring an extra casing string in many new wells.

Combined Geographic Segment Analysis

For the three months and year ended December 31, 2014, the year-over-year reduction in gross margin percentage was the result of a) lower average base rig rates in Canada; b) inflation increases in direct expenses primarily related to labour costs and; c) an increase in drilling times for footage wells in Texas. This results in a higher revenue rate, but requires more drilling days resulting in lower margins while drilling efficiencies are being optimized. Adjusted EBITDA increased by 12% and 23% to $29.3 million and $105.1 million, respectively. The increases were primarily driven by an increase in available drilling rigs (net) and improved utilization levels in Canada, particularly in the second and third quarters, resulting in a year-over-year increase of 30% in Canadian operating days.

Joint Venture

The Corporation conducts its operations in Mexico through 50% owned DCM, a Mexican joint venture company that is jointly controlled. As at December 31, 2014, the total non-cash current assets were $34.0 million, including $31.7 million of accounts receivable. The accounts receivable balance is due primarily from one major customer. Although full collection is anticipated, given the aging of this receivable, this balance has been reduced by $3.5 million ($1.7 million net to CanElson) to reflect a time value of money discount, as we expect a further delay in receiving full payment. Subsequent to the end of 2014, DCM collected $11.3 million of this balance.

Year ended December 31,	2014	2013
Cash & cash equivalents	$ 1,348	$ 5,716
Non-cash current assets	33,980	21,106
Current liabilities	22,882	12,776
	12,446	14,046
Non-current assets	20,342	18,016
Non-current liabilities	14,170	17,938
	6,172	78
Net assets	$ 18,618	$ 14,124
Corporation's share of unconsolidated joint venture net assets	$ 9,309	$ 7,062
Total revenue	34,493	31,010
Total profit for the year	5,361	3,552
Total depreciation for the year	3,590	1,334
Total foreign exchange loss (gain)	(2,706)	232
Total interest expense	1,561	782
Total income tax expense	2,320	1,522
Corporation's share of profits of unconsolidated joint venture	2,681	1,776
Corporation's share of other comprehensive income (loss)	(434)	228
Corporation's share of total comprehensive income	2,247	2,004

In Q1 2014, DCM operated 3 drilling rigs (1 subcontracted) and 1 service rig in the Ebano and Panuco blocks. In Q2 2014, DCM operated 1 drilling rig and 1 service rig in the Ebano block, and mobilized 1 service rig to the Miquetla block of Chicontepec, near Poza Rica. However, 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, one drilling rig has remained inactive during the third and fourth quarters of 2014, and DCM mobilized the remaining drilling rig from the Ebano block to the Miquetla block of Chicontepec, which began operations early in Q4 2014 but suspended operations early in Q1 2015, due to the uncertainty arising from low commodity prices and migration to the new energy reform.

ADMINISTRATION EXPENSES

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Administration expenses	**$ 6,282**	$ 5,229	20 %	**$ 26,269**	$ 19,880	32 %
Percent of services revenue	**7 %**	6 %	17 %	**8 %**	8 %	— %

Administration expense ("G&A") for the three months and year ended December 31, 2014 increased from the comparative period, as a result of inflation on wages, changes in foreign exchange, and expanded administrative staff to support growing Canadian and US operations. As a percentage of revenue, G&A is the same on a twelve month basis, but higher on a three month basis.

DEPRECIATION

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Depreciation expense	**$ 9,186**	$ 7,351	25 %	**$ 32,409**	$ 23,044	41 %
Depreciation expense per operating day	**3.06**	2.45	25 %	**2.76**	2.39	15 %

Substantially all property and equipment is depreciated based on rig operating days. Depreciation expense increased materially as a result of the expanded rig fleet and related increase in operating days. For the three months and year ended December 31, 2014, per-operating-day depreciation expense increased due to the effect of straight line depreciation of CanGas equipment with no corresponding increase in operating days and an increase in the average capital cost per drilling rig resulting from the addition of higher capital cost triple drilling rigs, top drives, drill pipe and other ancillary equipment.

STOCK BASED COMPENSATION

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Cost of sales	**$ 167**	$ 186	(10)%	**$ 769**	$ 613	25 %
Expenses	**278**	493	(44)%	**1,398**	1,405	— %
Stock based compensation	**$ 445**	$ 679	(34)%	**$ 2,167**	$ 2,018	7 %

CanElson has an employee stock option plan that provides all option holders the right to acquire common shares upon exercise of the options in accordance with their terms. CanElson follows the fair value method for accounting using the Black-Scholes option pricing model whereby compensation expense is recognized for the stock options on the date of grant and amortized over the option's vesting period. Total stock based compensation for the year ended December 31, 2014 increased from the comparative period as a result of additional stock options being granted during the period to support growing operations. Due to timing of stock option grants, stock based compensation was lower for the three months ended December 31, 2014, relative to the prior year.

INTEREST EXPENSE

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Interest expense	$ **112**	$ 644	(83)%	$ **489**	$ 1,977	(75)%

CanElson incurs interest expense on its loans and borrowings. Interest expense for the three months and year ended December 31, 2014 decreased as a result of capitalizing $0.2 million and $1.7 million of interest in the respective periods, partially offset by increased average loans and borrowings outstanding during the respective periods.

INCOME TAX EXPENSE

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Current	$ **(5,230)**	$ 1,790	(392)%	$ **2,101**	$ 2,864	(27)%
Future	**7,515**	3,703	103 %	**15,931**	14,664	9 %
Income tax expense	$ **2,285**	$ 5,493	(58)%	$ **18,032**	$ 17,528	3 %
Effective tax rate to the shareholders of the Corporation	**17 %**	30 %		**30 %**	33 %	

The Corporation's income tax expense is affected by tax rates in Canada and the US. For the year ended December 31, 2014, income tax expense and the effective tax rate to the shareholders of the Corporation was higher as a result of stronger year-over-year operational performance and an increase in non-deductible expenditures and higher contribution from the US segment. For the three months ended December 31, 2014, the income tax expense and effective tax rate to the shareholders of the Corporation decreased year-over-year due to the recognition of previously unrecognized deferred tax assets and reduced income contribution from the US segment relative to Canada.

NON-CONTROLLING INTEREST

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Non-controlling interest	$ **22,817**	$ 23,164	(1)%	$ **22,817**	$ 23,164	(1)%
Income attributable to non-controlling interest	**1,905**	1,805	6 %	**6,613**	6,481	2 %

CanElson owns 50% of Midland, which owns and operates three drilling rigs in the US. The Corporation also owns 50% of LP #1, 54.4% of LP #2 and 50% of LP #3, which each own and operate one drilling rig in Canada. By way of agreement, CanElson controls the relevant activities of these partnerships and therefore consolidates its investment in these entities.

Non-controlling interest in the consolidated statement of financial position, consolidated statement of comprehensive income and the consolidated statement of equity relate to net assets and income attributable to these entities, which are not wholly owned by CanElson.

At December 31, 2014, these entities had six drilling rigs available for operation (2013: six). Non-controlling interest and income attributable to the non-controlling interest was consistent with the prior year.

LOSS ON DISPOSAL AND DECOMISSIONING OF ASSETS

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Loss on disposal and decommissioning of assets	**$ 3,594**	$ —	100 %	**$ 3,935**	$ —	100 %

During 2014, the Corporation incurred a $3.9 million loss on the sale and on the decommissioning of certain rig accessories and CNG/RGT rental equipment. The assets were decommissioned or sold at a loss due to the inefficient nature of the assets and the high cost to maintain.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Relating to Operating Activities and Working Capital

	For the year ended December 31,		
	2014	2013	% Change
Funds flow	**$ 105,199**	$ 85,381	23 %
Income taxes paid	**208**	(9,254)	nm
Changes in non-cash working capital balances	**1,136**	(2,541)	nm
Operating cash flow	**$ 106,543**	$ 73,586	45 %

nm - the calculation is not meaningful

The Corporation generates and uses cash flows largely from the operation of drilling rigs. During the year ended December 31, 2014 operating cash flow increased relative to the comparable period as a result of 23% higher funds flow, and reduced income taxes paid.

At December 31, 2014 CanElson had an overall positive net working capital balance (current assets less current liabilities, excluding loans and borrowings) of $41.9 million, which is lower than the net working capital balance of $50.9 million at December 31, 2013. The decrease is primarily a result of a reduced accounts receivable balance, as commodity prices continued to decline toward the end of the fourth quarter, resulting in lower activity levels in Canada starting in mid-December.

The Canadian and North Dakota drilling operations are affected by weather patterns. Activity peaks in the winter during the fourth and first quarters. In the spring, wet weather and spring conditions make the ground unstable, which restricts the ability to move heavy equipment. This leads to quarterly fluctuations in operating cash flow results and requirements for working capital. Activity in Texas does not have the same seasonality.

Cash Flows Relating to Financing Activities

	For the year ended December 31,		
	2014	2013	% Change
Increase in loans and borrowings	$ **40,542**	$ 66,365	(39)%
Repayment of loans and borrowings	**(30,820)**	(70,847)	(56)%
Debt issue costs	**—**	—	— %
Interest paid	**(489)**	(1,977)	(75)%
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control (see non-controlling interest)	**—**	4,520	(100)%
Distributions paid to minority interest holders	**(7,235)**	(4,508)	60 %
Dividends paid to common shareholders	**(22,214)**	(18,724)	19 %
Issue of share capital (net of costs)	**4,397**	65,359	(93)%
Financing cash flow	$ **(15,819)**	$ 40,188	(139)%

During the year ended December 31, 2014, net loans and borrowings increased by $9.7 million as CanElson continued to incur costs related to the 2014 capital program.

At December 31, 2014 CanElson had 93.0 million common shares and 5.5 million options outstanding with a weighted average exercise price of $5.67 per option exercisable into one common share. At the date of this MD&A CanElson had 93.0 million common shares and 5.4 million options outstanding, each exercisable into one common share.

The Corporation's Loan Facilities

As at December 31, 2014 and December 31, 2013, CanElson had the following loans and borrowings facilities available and outstanding:

	Available Amount		Outstanding Balance		Interest rate per annum	Maturity date
As at December 31,	2014	2013	2014	2013		
The Corporation's Facilities						
Operating loan	$ 10,000	$ 10,000	$ 1,432	$ 5,495	(i)	due on demand
Revolving loan	110,000	110,000	47,000	25,000	(i)	(ii)
Finance lease obligations	—	6,133	—	6,133		
	$ 120,000	$ 126,133	$ 48,432	$ 36,628		
CanElson 120601 Drilling Limited Partnership #1 Facilities ("LP#1")						
Operating loan (iii)	$ 502	$ 884	$ —	$ —	(iv)	due on demand
Non-revolving loan	900	1,950	900	1,950	(v)	(vi)
	$ 1,402	$ 2,834	$ 900	$ 1,950		
CanElson 120601 Drilling Limited Partnership #3 Facilities ("LP#3")						
Operating loan (vii)	$ 252	$ 312	$ —	$ —	(viii)	due on demand
Non-revolving loan	2,553	3,585	2,553	3,585	(ix)	(x)
	$ 2,805	$ 3,897	$ 2,553	$ 3,585		
Total	$ 124,207	$ 132,864	$ 51,885	$ 42,163		
Less: net unamortized debt issue costs			152	392		
Less: current portion			4,885	17,163		
Total long-term debt		$	46,848	$ 24,608		

The Corporation's loan facilities are secured by charges on all present and future property of the Corporation and its wholly owned subsidiaries.

I. The operating loan and revolving loan bear interest based on election of one of the following options when funds are drawn:
   a. The bank's Canadian prime lending rate plus 0.5% to 1.5%
   b. The US prime rate plus 0.5% to 1.5%
   c. The US LIBOR rate plus 1.5% to 2.5%
   d. The BA rate plus 1.5% to 2.5%.

   The Corporation elected both the bank's Canadian prime lending rate and the BA rate for revolving loan draws during 2014. Interest is paid on a monthly basis when funds are drawn, with the BA interest paid at time of acceptance.

II. Unless otherwise extended, revolving loan amounts become due on the maturity date which is December 19, 2018. No principal payments are due until then.

LP #1 Facilities

LP #1's facilities are secured by charges on all present and future property of LP#1 and 1703090 Alberta Ltd., the general partner of LP#1. The Corporation has not provided a guarantee on the LP #1 facilities. LP #1 is an entity owned 50% by the Corporation.

III. Available amount is the lesser of $1,000 or 75% of LP#1's Canadian accounts receivable aged less than 90 days.
IV. The operating loan bears interest when funds are drawn at the bank's prime lending rate plus 1.5%.
V. The non-revolving loan bears interest when funds are drawn at the bank's prime lending rate plus 2%.
VI. Interest is paid on a monthly basis. Unless otherwise demanded by the bank, all amounts shall be paid over an amortization period of 60 months starting January 31, 2013.

LP#3 Facilities

LP #3's facilities are secured by charges on all present and future property of LP#3 and 1737804 Alberta Ltd., the general partner of LP#3. The Corporation has not provided a guarantee on the LP #3 facilities. LP #3 is an entity owned 50% by the Corporation.

VII. Available amount is the lesser of $1,000 or 75% of LP#3's Canadian accounts receivable less than 90 days.
VIII. The operating loan bears interest when funds are drawn at the bank's prime lending rate plus 1.5%.
IX. The non-revolving loan bears interest when funds are drawn at the bank's prime lending rate plus 1.75%.
X. Interest is paid on a monthly basis. Unless otherwise demanded by the bank, all amounts shall be paid over an amortization period of 72 months starting September 30, 2013.

The Corporation, LP#1 and LP#3 were in compliance with loan covenants at December 31, 2014 and 2013. The covenants are as follows:

Covenants on the Corporation's Facilities

- Tested quarterly, the ratio of Funded Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") for any trailing four fiscal quarters shall not exceed 3.00:1;
- Tested quarterly, EBITDA to Interest Expense Ratio for any trailing four fiscal quarters shall not be less than 3.00:1;
- Ensure that the principal amount of all advances, in aggregate, under the operating loan does not exceed, at any time, the operating loan commitment;
- Ensure that the principal amount of all advances, in aggregate, under the revolving loan does not exceed, at any time, the revolving loan commitment;

Covenants on LP #1 & LP #3 Facilities

- During the fourth quarter of 2014, LP#1 and LP#3 had their facilities amended to the following:
- Tested monthly, shall not allow its current assets to current liabilities (excluding current portion of loans and borrowings) to at any time be less than 1.25:1. For the months of November 2014 to March 2015, the ratio will be permitted to be no less than 1.00:1 for LP #3.
- Tested monthly, shall not allow its debt to tangible net worth exceed 2.5:1.
- Tested annually (commencing December 31, 2015 for LP #3), shall not allow its Cash Flow (income before interest, taxes, depreciation and amortization) to Debt Service (sum of all interest paid together with annual principal payments on the respected LP's Facilities) at any time be less than 1.25:1. Contributions from the Corporation via equity or postponed loans and applied voluntary reduction in term loan shell be included as cash flow for that fiscal year.

Cash Flows Relating to Investing Activities

	For the year ended December 31,		
	2014	2013	% Change
Purchase of property & equipment	$ **(98,061)**	$ (76,847)	28 %
Business acquisitions (net of cash acquired)	**—**	(32,847)	(100)%
Proceeds on disposition of property and equipment	**2,231**	1,156	93 %
Capitalized development incurred	**—**	(727)	nm
Interest capitalized on rig construction	**(1,675)**	—	nm
Changes in non-cash working capital balances	**2,127**	(1,334)	nm
Investing cash flow	$ **(95,378)**	$ (110,599)	(14)%

nm - the calculation is not meaningful

CanElson manages the assembly of drilling rigs and at December 31, 2014 was committed to or expected to commit to the acquisition of drilling rigs, to completing rig constructions, to various capital upgrades and re-certifications, and to maintenance for its drilling rig fleet (see Capital Availability and Capital Program). Other than as described under Capital Availability and Capital Program, CanElson has not committed to any further significant capital expenditures.

During the year ended December 31, 2014 and 2013, CanElson used cash flows for the purchase of property and equipment related to rig construction and for maintenance capital.

Contractual Obligations

In the normal course of business, CanElson incurs contractual obligations related to vehicle and premise leases and bank debt. The minimum annual payments for contractual obligations for the next five years are as follows:

As at December 31, 2014	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long term debt	$ 51,733	$ 4,885	$ 46,848	$ —	$ —
Operating leases	2,034	738	814	482	—
Total Contractual Obligations	$ 53,767	$ 5,623	$ 47,662	$ 482	$ —

In addition to the above contractual maturities and those contractual obligations related to loans and borrowings discussed in Cash Flows Related to Financing Activities, CanElson has committed to or expects to commit to incremental capital expenditures as described in the Capital Availability and Capital Program section of the Outlook.

SUMMARY OF QUARTERLY RESULTS

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Services revenue	$ 90,553	$ 89,933	$ 61,904	$ 97,139	$ 81,073	$ 66,155	$ 37,499	$ 72,277
Adjusted EBITDA	29,343	27,711	16,316	31,761	26,200	23,060	9,036	27,455
Net income attributable to shareholders of the Corporation	10,846	11,102	5,536	15,102	10,586	9,767	1,870	13,335
Income per share (diluted)	0.12	0.12	0.06	0.16	0.12	0.12	0.02	0.17
Funds flow	29,420	27,594	17,460	30,725	25,844	22,846	9,840	26,851
Current assets	70,369	72,739	62,166	84,986	82,219	65,268	49,254	61,743
Total assets	614,359	598,440	570,068	579,215	576,829	466,021	428,721	420,521
Payable and accrued liabilities	28,059	29,859	24,321	28,044	26,720	23,196	20,819	24,097
Deferred revenue	1,308	1,301	1,606	2,196	2.196	3,857	4,521	4,870
Current portion of loans and borrowings	4,885	7,607	15,933	9,910	17,163	7,279	6,706	5,386
Long term loans and borrowings	46,848	46,788	29,728	37,668	24,608	24,549	—	20,432
Equity attributable to shareholders of the Corporation	434,773	421,442	408,263	411,328	395,746	332,563	329,581	298,012
Weighted average diluted shares	93,070	93,299	93,898	93,195	90,376	84,197	78,254	76,784

In addition to oil and gas drilling market volatility, the seasonal operating environment of the oil and gas services industry within the Western Canadian Sedimentary Basin ("WCSB") and North Dakota affects the quarterly results of CanElson. The strongest operating results are generally expected to be in the first and fourth quarters. Utilization rates in the WCSB and North Dakota typically increase during the third quarter as wet spring break-up conditions abate, which increases the mobility of the drilling rig equipment. CanElson’s operations in West Texas, where seasonality is generally not a significant factor, mitigate the financial impact of seasonal operations within Canada and North Dakota. However, since approximately 65% of the Corporation’s owned drilling rig fleet operates in areas where seasonal conditions are experienced, seasonality has and is expected to continue to affect operating results.

Summary of Selected Quarterly Results for the Joint Venture (DCM)

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Profit for the period	$ (386)	$ 1,250	$ 1,191	$ 3,306	$ 1,352	$ 1,172	$ 952	$ 76
Interest expense for the period	358	(1,800)	2,441	562	204	180	244	154
Income tax expense for the period	(150)	552	424	1,494	576	904	—	42
Depreciation for the period	982	1,058	1,000	550	846	158	178	152
Joint ventures EBITDA for the period	804	1,060	5,056	5,912	2,978	2,414	1,374	424
Foreign exchange loss (gain) for the period	(1,958)	(1,010)	266	(4)	152	(98)	172	6
Joint ventures Adjusted EBITDA for the period	(1,154)	50	5,322	5,908	3,130	2,316	1,546	430
Corporation's share of the joint ventures Adjusted EBITDA for the period	$ (577)	$ 25	$ 2,661	$ 2,954	$ 1,565	$ 1,158	$ 773	$ 215

Activity levels in Mexico are rarely impacted by seasonality and variations in activity levels are primarily a function of our customer's well programs. The primary reason for the increase in DCM profit through 2013 and the first half of 2014 was the deployment of two purchased drilling rigs and a continuous focus on delivering operating efficiencies. One drilling rig worked throughout Q4 2014, however, Adjusted EBITDA was negatively impacted by a $3.5 million ($1.7 million net to CanElson) reductions of accounts receivable, as a result of applying a time value of money discount due to aging of the receivable.

FINANCIAL INSTRUMENTS

Financial instruments include cash, trade and other receivables, accounts payable and accrued liabilities, and loans and borrowings. The fair values of cash, trade and other receivables, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities. The fair value of loans and borrowings approximates their carrying value due to the floating interest rate associated with the debt instruments.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Application of Critical Accounting Estimates

The significant accounting policies used by CanElson are disclosed in the audited consolidated financial statements for the year ended December 31, 2014. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The accounting estimates considered to have the greatest effect on CanElson's consolidated financial results are as follows:

Depreciation

Depreciation of property and equipment incorporates estimates of useful lives and residual values. These estimates may change as CanElson establishes a longer operating history or as general market conditions change.

Long-lived Assets and Goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units ("CGUs") to which goodwill has been allocated. The impairment calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

Accounts Receivable

CanElson is subject to credit risk on accounts receivable balances and assesses the recoverability of accounts receivable on an ongoing basis. Assessing accounts receivable for impairment involves significant judgment and uncertainty, including estimates of future events. Changes in circumstances underlying these estimates may result in CanElson recognizing an additional allowance against accounts receivable.

Income Taxes

The Corporation is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Control of Entities

The Corporation has determined that it controls Midland, LP#1, and LP #3, even though the ownership interest is less than 51% of the voting rights. The factors the Corporation considered in making this determination include the Corporation's control over the relevant activities of these entities through services performed in accordance with contractual arrangements. Consequently, the Corporation consolidates its investments in these entities. Non-controlling interest represents the units held by a third party. The principal activity of Midland, LP #1 and LP #3 is oil and gas drilling services. The Corporation also owns a 50% interest in DCM, which is accounted for on an equity basis.

Investment in Joint Venture

The Corporation conducts its operations in Mexico through 50% owned DCM, a Mexican joint venture company that is jointly controlled. Included in this joint venture are accounts and balances which are subject to judgment, including estimates of future events. Management has made significant assumptions pertaining to accounts receivable, including timing of collection, in determining an appropriate discount of those receivables due to anticipated length of collection. Please refer to the Depreciation, Long-lived Assets and Goodwill, Accounts Receivable, and Income Taxes discussion above.

Newly Adopted Standards

IAS 36 Impairment of Assets

In May 2013 IAS 36, Impairment of Assets, was amended to restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized. It also expands and clarifies the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.

IFRIC 21 Levies

In May 2013 the IASB issued IFRIC 21, Levies, an interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The Corporation adopted the above new and revised IFRSs on January 1, 2014 and has assessed that the adoption of these standards currently has no material impact to these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014 IFRS 15, Revenues from Contracts with Customers, was introduced to clarify the principles for recognizing revenue from contracts with customers. The main objective is to remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework, provide a single revenue recognition model which will improve comparability, and simplify the preparation of the financial statements. IFRS 15 is effective for annual periods beginning on or after January 2017.

IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

In May 2014 IFRS 11, Joint Arrangements, was clarified by adding new guidance on the accounting for the acquisition of an interest in joint operations that constitute a business. The IASB decided that acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3, Business Combinations, and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations. The new IFRS 11 guidance is effective for annual periods beginning on or after January 1, 2016.

IFRS 9 Financial Instruments

In July 2014 the final elements of IFRS 9, Financial Instruments, was completed. The package of improvements introduced by IFRS 9 includes improved classification on determining how financial assets and liabilities are accounted for in the financial statement and in particular, how they are measured on an ongoing basis, single forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 2018.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In September 2014 a narrow scope amendment to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associated and Joint Ventures (2011), was issued in order to address the inconsistency between the requirements in IFRS 10 and IAS 28 (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 (2011) restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. The amendment is effective for annual periods beginning on or after January 1, 2016.

Management is still assessing the impact of the adoption of the newly issued IFRSs on the Corporation's consolidated financial statements.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2014, the Corporation's management evaluated the effectiveness of its disclosure controls and procedures as defined in the rules of the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer. The Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's Disclosure Controls and Procedures are effective as of December 31, 2014.

The Chief Executive Officer and Chief Financial Officer do not expect that the Corporation's disclosure controls and procedures will prevent or detect all errors, misstatements and fraud but they are designed to provide reasonable assurance of achieving these objectives. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the corresponding objectives are met.

As of December 31, 2014, the management of the Corporation evaluated the Corporation's effectiveness of the internal control over financial reporting, as defined in the rules of the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the Chief Executive Officer and Chief Financial Officer. The Chief Executive Officer and Chief Financial Officer concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2014.

Internal control over financial reporting, no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

RISKS AND UNCERTAINTIES

A summary of certain risk factors relating to CanElson's business are in the Corporation's 2014 Annual Information Form filed on SEDAR, available at www.sedar.com. Also refer to the cautionary statement regarding "Forward-Looking Information". Additional risk factors are as follows.

Financial Instruments

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. CanElson is normally exposed to credit risk through its accounts receivable balances. CanElson manages credit risk by assessing the credit worthiness of its customers before providing services and on an ongoing basis, as well as monitoring the amount and age of balances outstanding. Credit risks on accounts receivable are normal for the industry. CanElson does not have any accounts receivable at December 31, 2014 that are believed to be uncollectible. Substantially all of the Corporation's cash is deposited with Canadian chartered banks and reputable United States financial institutions and therefore management believes the risk of credit loss on deposits is remote.

CanElson is exposed to interest rate risk on its floating rate loans and borrowings. The Corporation has the ability to enter into economic hedges on its interest bearing loans and borrowings, but has not done so to date. Management believes that a 1% interest rate change during the next 12-month reporting period would be reasonably possible. A 1% change in the interest rate on the outstanding $54.7 million of loans and borrowings would increase or decrease net and comprehensive income by $0.5 million before tax.

CanElson is exposed to foreign currency fluctuations on its financial instruments, primarily in relation to its US-dollar-denominated cash, accounts receivable and accounts payable. The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the US dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding US dollar denominated accounts payable. CanElson believes a fluctuation of the US dollar relative to the Canadian dollar of 10% during the next 12-month reporting period would be reasonably possible. CanElson's exposure to foreign currency corresponding to US dollar denominated balances as at December 31, 2014 and December 31, 2013 is as follows:

As at December 31		2014		2013
Cash	$	1,372	$	3,862
Non-cash current financial assets		23,664		18,423
Non-cash current financial liabilities		(9,286)		(7,965)
Net US dollar exposure	$	15,750	$	14,320
Effect of plus (minus) 10% change in the US dollar to Canadian dollar exchange rate on income before tax	$	1,575	$	716

Canadian dollar revenue from US operations is exposed to future price fluctuations of the US dollar relative to the Canadian dollar. In addition the Corporation's share of profit from the joint venture and its net investment in DCM are exposed to future price fluctuation of the US dollar and Mexican Peso relative to the Canadian dollar; however, these effects are not quantifiable.

Translation gains and losses related to the carrying value of CanElson's US operations are included in other comprehensive income ("OCI"). At December 31, 2014, the balance in OCI represents a $12.7 million gain (December 31, 2013: $8.8 million gain). The increase in OCI relative to December 31, 2013 resulted primarily from the depreciation of the Canadian dollar relative to the US dollar and an increase in net assets.

Liquidity Risk

CanElson is exposed to liquidity risk, which relates to not being able to meet financial obligations as they become due. The Corporation manages liquidity risk through stewardship of its capital structure, monitoring and reviewing actual and forecasted cash flows and the resulting effects on bank covenants (see Liquidity and Capital Resources), and maintaining unused credit facilities where possible to ensure available cash resources to meet liquidity needs. CanElson's access to existing credit facilities and cash flow from operating activities is expected to be greater than anticipated capital expenditures and the contractual maturities of financial liabilities for 2015. This expectation could be adversely affected if the

Corporation decided to significantly increase investing activities without a corresponding increase to available capital or if a material negative change in demand for oil and gas energy services occurred in North America.

Valuation Risk

CanElson's valuation of its $9.3 million investment in joint venture is based on assumptions that the underlying joint venture assets and liabilities are at its carrying amounts. Management has made significant assumptions with respect to timing of collection and the ultimate collection of accounts receivable (see Application of Critical Accounting Estimates, Investment in Joint Venture). Changes in these underlying assumptions would affect the carrying amount of CanElson's investment in joint venture.

NON-GAAP MEASURES

This MD&A 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 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 calculation of DCM Adjusted EBITDA, see the Summary of Selected Quarterly Results for the Joint Venture (DCM) section.

	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 with 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 %

Effective tax rate to the shareholders of the corporation is defined as "income tax expense divided by the sum of net income to the shareholders of the corporation and income tax expense". Management utilizes this measurement to determine expected income tax expense to the Corporation's shareholders.

STANDARD INDUSTRY DEFINITIONS

In addition to the non-GAAP measures listed above, we use a number of industry and other terms in this MD&A 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 MD&A contains forward-looking information pertaining to: our activity level expectations across each of our geographic operating regions; our 2015 capital program; our primary corporate objectives; 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 MD&A 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.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of the Corporation and all other financial and operating information contained in the report are the responsibility of management. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes to the consolidated financial statements and in accordance with International Financial Reporting Standards.

Management is also responsible for establishing and maintaining adequate internal controls over the Corporation's financial reporting. The Corporation's internal control system has been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently and well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests they deem necessary to enable them to express an opinion on these consolidated financial statements.

The Audit Committee of the Board of Directors has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

"Signed"
Randy Hawkings
President and Chief Executive Officer
February 26, 2015

"Signed"
Robert Skilnick
Chief Financial Officer
February 26, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CanElson Drilling Inc.:

We have audited the accompanying consolidated financial statements of CanElson Drilling Inc. which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CanElson Drilling Inc. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP.

Chartered Accountants
February 26, 2015
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)	Note	December 31, 2014	2013
ASSETS			
Current assets:			
Cash		$ 3,372	$ 6,402
Trade and other receivables	12	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	5	496,021	422,257
Deferred tax assets	7	1,210	749
Other intangible assets	6	1,754	1,872
Investment in joint venture	16	9,309	7,062
Goodwill	6	35,696	35,696
Total assets		$ 614,359	$ 546,806
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables and accrued liabilities	9	$ 28,059	$ 26,720
Deferred revenue		406	1,532
Loans and borrowings	8	4,885	17,163
Total current liabilities		33,350	45,415
Deferred revenue		902	1,450
Loans and borrowings	8	46,848	24,608
Deferred tax liabilities	7	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

See accompanying notes to these consolidated financial statements

Approved by the Board of Directors:

"Signed"
Elson J. McDougald
Director

"Signed"
Rodger Hawkins
Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Stated in thousands of Canadian dollars - except per share data)	Note	December 31, 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	4	—	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	7	2,101	2,864
Deferred tax expense		15,931	14,664
Total income tax	7	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	14	$ 0.46	$ 0.44
Diluted	14	$ 0.46	$ 0.43

See accompanying notes to these consolidated financial statements

CanElson Drilling Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in thousands of Canadian dollars)	Not	December 31, 2014	December 31, 2013
Operating activities			
Net income		$ 49,199	$ 42,039
Adjustments for:			
Share of unconsolidated joint venture profits	16	(2,681)	(1,776)
Unrealized foreign exchange loss		1,649	551
Stock based compensation		2,167	2,018
Interest expense		489	1,977
Income tax expense		18,032	17,528
Depreciation and amortization		32,409	23,044
Loss on disposal and decommissioning of assets		3,935	—
Funds flow from operations		105,199	85,381
Income taxes refunded (paid)		208	(9,254)
Change in non-cash working capital balances		1,136	(2,541)
Cash flows from operating activities		106,543	73,586
Financing activities			
Proceeds from loans and borrowings		40,542	66,365
Repayment of loans and borrowings		(30,820)	(70,847)
Interest paid		(489)	(1,977)
Proceeds on disposal of partial interests in subsidiaries that does not involve loss of control		—	4,520
Distribution paid to subsidiary's non-controlling interest		(7,235)	(4,508)
Dividends paid to shareholders		(22,214)	(18,724)
Issuance of share capital (net of costs)		4,397	65,359
Cash flows from financing activities		(15,819)	40,188
Investing activities			
Purchase of property and equipment	5	(98,061)	(76,847)
Proceeds on disposition of property and equipment		2,231	1,156
Business acquisitions	4	—	(32,847)
Capitalized development cost incurred	6	—	(727)
Interest capitalized in rig construction		(1,675)	—
Changes in non-cash working capital balances		2,127	(1,334)
Cash flows used in investing activities		(95,378)	(110,599)
Effect of foreign exchange rate changes on cash		1,624	554
Increase (decrease) in cash		(3,030)	3,729
Cash, beginning of year		6,402	2,673
Cash, end of year		$ 3,372	$ 6,402

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Share capital		Employee	Foreign	Retained		Non-	Total
(Stated in thousands of Canadian dollars)	Not	Shares	Amount	benefit	currency	earnings	Attributabl	controlling	equity
Balance at January 1, 2013		76,218 $	217,260 $	4,092 $	304 $	64,276 $	285,932 $	16,131 $	302,063
Net income for the year		—	—	—	—	35,558 $	35,558	6,481	42,039
Other comprehensive income for the year		—	—	—	8,487	— $	8,487	540	9,027
Total comprehensive income for the year		—	—	—	8,487	35,558	44,045	7,021	51,066
Transactions with owners, recorded directly in equity:									
Shares issued on business combination (Highkelly Drilling Ltd.)	4	2,619	16,132	—	—	—	16,132	—	16,132
Shares issued for cash		11,615	63,940	—	—	—	63,940	—	63,940
Shares issuance cost		—	(3,783)	—	—	—	(3,783)	—	(3,783)
Deferred tax benefit on share issuance costs		—	984	—	—	—	984	—	984
Share options issued & expensed		—	—	2,018	—	—	2,018	—	2,018
Share options exercised & paid		1,479	6,906	(1,704)	—	—	5,202	—	5,202
Dividends paid to shareholders		—	—	—	—	(18,724)	(18,724)	—	(18,724)
Disposition of 45.6% & 50% ownership of rigs held in		—	—	—	—	—	—	4,520	4,520
Distributions paid to subsidiary's non-controlling		—	—	—	—	—	—	(4,508)	(4,508)
Balance at December 31, 2013		91,931	301,439	4,406	8,791	81,110	395,746	23,164	418,910
Net income for the year		—	—	—	—	42,586	42,586	6,613	49,199
Other comprehensive loss for the year		—	—	—	12,012	—	12,012	275	12,287
Total comprehensive income for the year		—	—	—	12,012	42,586	54,598	6,888	61,486
Transactions with owners, recorded directly in equity:									
Share options issued & expensed		—	—	2,167	—	—	2,167	—	2,167
Share options capitalized as property and equipment		—	—	79	—	—	79	—	79
Share options exercised & paid	10	1,043	5,716	(1,319)	—	—	4,397	—	4,397
Dividends paid to shareholders		—	—	—	—	(22,214)	(22,214)	—	(22,214)
Distributions paid to subsidiary's non-controlling		—	—	—	—	—	—	(7,235)	(7,235)
Balance at December 31, 2014		92,974 $	307,155 $	5,333 $	20,803 $	101,482 $	434,773 $	22,817 $	457,590

(1) Employee Benefit Reserve relates to the Corporation's stock based compensation described in note 10

(2) At December 31, 2014, the foreign currency translation reserve balance consists entirely of the effect from currency translation of foreign operations

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013
(Stated in thousands of Canadian dollars, except for per share amounts)

1. REPORTING ENTITY

CanElson Drilling Inc. (the "Corporation") is a company registered and domiciled in Canada. The Corporation is a publicly-traded company listed on the TSX under the symbol CDI. The head office, principal address and records office is Suite 700, 808 4th Avenue SW Calgary, Alberta Canada T2P-3E8. The consolidated financial statements of the Corporation comprise of the Corporation and its subsidiaries (see note 15).

The primary business of the Corporation is operating land-based contract drilling rigs in Canada and the United States (US) for oil and natural gas exploration and development companies. This business is conducted through the Corporation’s Drilling Services Division which also assembles drilling rigs and sells interests in drilling rigs to selected business relationships involving the Corporation. The Corporation also has a 50% ownership interest in an unconsolidated joint venture, Diavaz CanElson de Mexico, S.A. de C.V. ("DCM"), whose primary business is operating land-based contract drilling rigs in Mexico (see note 16).

The Corporation also operates a compressed natural gas ("CNG") and raw gas transportation ("RGT") related services business through a wholly owned subsidiary CanGas Solutions Inc. ("CanGas").

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

a) Newly adopted standards

IAS 36 Impairment of Assets

In May 2013 IAS 36, Impairment of Assets, was amended to restrict the requirement to disclose the recoverable amount of an asset or Cash Generating Unit ("CGU") to periods in which an impairment loss has been recognized. It also expands and clarifies the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal. Additional disclosures required by IAS 36 are included in note 6.

IFRIC 21 Levies

In May 2013 the IASB issued IFRIC 21, Levies, an interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The Corporation adopted the above new and revised IFRSs on January 1, 2014 and has assessed that the adoption of these standards currently have no material impact to these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED IFRSs (continued)

b) New and revised IFRSs that have been issued, but not yet effective

IFRS 15 Revenue from Contracts with Customers

In May 2014 IFRS 15, Revenues from Contracts with Customers, was introduced to clarify the principles for recognizing revenue from contracts with customers. The main objective is to remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework, provide a single revenue recognition model which will improve comparability, and simplify the preparation of the financial statements. IFRS 15 is effective for annual periods beginning on or after January 2017.

IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

In May 2014 IFRS 11, Joint Arrangements, was clarified by adding new guidance on the accounting for the acquisition of an interest in joint operations that constitute a business. The IASB decided that acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3, Business Combinations, and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations. The new IFRS 11 guidance is effective for annual periods beginning on or after January 1, 2016.

IFRS 9 Financial Instruments

In July 2014 the final elements of IFRS 9, Financial Instruments, was completed. The package of improvements introduced by IFRS 9 includes improved classification on determining how financial assets and liabilities are accounted for in the financial statement and in particular, how they are measured on an ongoing basis, single forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 2018.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In September 2014 a narrow scope amendment to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associated and Joint Ventures (2011), was issued in order to address the inconsistency between the requirements in IFRS 10 and IAS 28 (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 (2011) restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. The amendment is effective for annual periods beginning on or after January 1, 2016.

Management is still assessing the impact of the adoption of the newly issued but not yet effective IFRSs on the Corporation's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its consolidated financial statements in accordance with IFRSs as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Professional Accountants.

a) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention except for certain assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and reporting currency. The Corporation's subsidiaries incorporated in the United States (see note 15) use the US dollars as their functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts.

These consolidated financial statements were authorized for issue by the Corporation's Board of Directors on February 26, 2015 and are in compliance with IFRSs.

b) Critical accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of Cash Generating Units ("CGUs")
Significant judgement is involved in determining the smallest group of assets that generates independent cash inflows. Management has determined that the Corporation currently operates two CGUs. The Corporation's first CGU is a service line which is oil and gas drilling ("Drilling CGU"). The second CGU is CNG and RGT transportation services related to the supply of natural gas as a fuel to customers, and uses similar interchangeable equipment across the Corporation's operations.

Depreciation
Depreciation of property and equipment incorporates estimates of useful lives and residual values. These estimates may change as CanElson establishes a longer operating history or as general market conditions change.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Critical accounting estimates and judgements (continued)

Long lived assets and goodwill

The recoverable amount of long-lived assets is required to be estimated which indicators exist. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. The impairment calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Estimating the recoverable amount requires management to make assumption around expected cash flows, equipment utilization, growth and discount rates. These assumptions require management to make judgments.

Accounts receivable

CanElson is subject to credit risk on accounts receivable balances and assesses the recoverability of accounts receivable on an ongoing basis. Assessing accounts receivable for impairment involves significant judgment and uncertainty, including estimates of future events. Changes in circumstances underlying these estimates may result in CanElson recognizing an additional allowance against accounts receivable.

Income taxes

The Corporation is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Control of entities

The Corporation has determined that it controls Midland C Ranch Holdings, LLC, ("Midland"), CanElson 120601 Drilling Limited Partnership #1 ("LP#1"), and CanElson 120601 Drilling Limited Partnership #3 ("LP #3), even though the ownership interest is less than 51% of the voting rights. The factors the Corporation considered in making this determination include the Corporation's control over the relevant activities of these entities through services performed by virtue of contractual arrangements, the terms and conditions of the partnership agreements, the purpose and design of the joint arrangements. Consequently, the Corporation consolidates its investments in these entities. Non-controlling interest represents the interest of non-controlling units held by a third party. The principal activity of Midland, LP #1 and LP #3 is oil and gas drilling services. The Corporation also owns a 50% interest in DCM described in note 16.

c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Ownership interest in controlled subsidiaries held by third parties is shown as a separate component of equity called non-controlling interest. The accounting policies of subsidiaries are aligned with the policies adopted by the Corporation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

Transactions eliminated on consolidation

All intra-corporation balances and transactions are eliminated in preparing the consolidated financial statements.

Investments in associates and joint ventures

An associate is an entity over which the Corporation has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture arrangement whereby the parties that have control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities or joint ventures incorporated in these consolidated financial statements using the equity method of accounting, Under the equity method, an investment in an associate or joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Corporation's share of the losses of an associate or a joint venture, exceeds the Corporation's interest in the associate or joint venture, the Corporation discontinues recognizing its share of further losses.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Corporation, liabilities incurred by the Corporation to the former owners of the acquiree and the equity interests issued by the Corporation in exchange for control of the acquiree. Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are recognized in the statement of comprehensive income as incurred if incrementally different.

The Corporation measures goodwill as the fair value of the consideration transferred plus the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis.

Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities, including goodwill of the Corporation's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rate for the period, unless rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transaction are used.

Foreign currency differences are recognized in other comprehensive income (loss) in the foreign currency translation reserve. Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income (loss) in the foreign currency translation reserve.

f) Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through income or loss

Cash has been designated as fair value through profit or loss. Upon initial recognition attributable transaction costs are recognized in income or loss as incurred. Financial assets at fair value through income or loss are measured at fair value, and changes therein are recognized in income or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial instruments (continued)

Loans and receivables

Trade and other receivables have been classified as loans and receivables. They are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Accounts receivable comprise of trade and other receivables.

Non-derivative financial liabilities

Accounts payable and accrued liabilities, loans and borrowings are classified as "other financial liabilities". Such financial liabilities are recognized initially at fair value and adjusted for any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Equity instruments

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

g) Property and equipment

Recognition and measurement

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in the consolidated statement of comprehensive income. Property and equipment with no future economic benefit from its use are derecognized, with the gain or loss arising from the derecognition of an item included the consolidate statement of comprehensive income.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in income or loss either on a unit-of-production or straight-line basis over the estimated useful lives of each part of an item of property and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Property and equipment (continued)

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

	Expected life	Salvage value	Basis of depreciation
Drilling rig equipment	1,000 - 5,000 drilling days	20%	unit-of-production
Drill pipe and drill collars	1,100 - 1,500 drilling days	20%	unit-of-production
Service rig equipment	2,000 operating days	20%	unit-of-production
Other equipment	1,500 drilling days	20%	unit-of-production
Light duty vehicles	4 years	—	straight-line
Office equipment	3 years	—	straight-line
Buildings	15 years	—	straight-line
Rental equipment	5 - 25 years	20%	straight-line
Rigs under construction	N/A	N/A	no depreciation

Drilling rig equipment is depreciated using the unit-of-production method based on the estimated useful life. For acquired drilling rig equipment, the estimated useful life is dependent upon the age of the equipment when acquired. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. In addition, everything except for office equipment, buildings and rigs under construction presented above are included in rigs & accessories disclosed in note 5.

In the first quarter of 2013, the Corporation had reduced the estimated useful life for drill pipe and drill collars from 1,500 to 1,100 drilling days depending upon the use of the drill pipe and drill collars. This change was adjusted prospectively.

h) Intangible assets

Goodwill

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their assigned values. Goodwill is allocated as of the date of the business combination to the Corporation's cash generating unit that are expected to benefit from the business combination.

Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in income or loss as incurred.

Intangibles assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Internally-generated intangible assets

An internally-generated intangible asset arising from development is recognized if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or to sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are recognized in the consolidated statement of comprehensive income in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

i) Impairment

Financial assets

A financial asset not carried at fair value through income or loss is assessed at each reporting date to assess whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Corporation considers evidence of impairment for receivables at both a specific asset and in aggregate. In assessing impairment the Corporation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment (continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against the financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to assess whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is calculated each year at the same time or more frequent if there are impairment indicators.

The recoverable amount of an asset or CGU 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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 or amortization, if no impairment loss had been recognized.

j) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Share-based payment transactions

The Corporation has an employee stock option plan that provides all option holders the right to common shares for the options exercised. The Corporation follows the fair value method for accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized for the stock options on the date of grant, and amortized over the option's vesting period. Share-based payment arrangements in which the Corporation receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Corporation.

l) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest costs.

m) Revenue

The Corporation earns drilling revenue from two types of drilling contracts: (1) daywork contracts; and (2) integrated services contracts. Revenue earned from daywork contracts is recognized upon the passage of time and delivery of service to customers and only when collection is reasonably assured. Revenue earned from services provided under integrated services contracts whereby a well is drilled to an agreed upon depth under specified conditions for a fixed price, regardless of the time required or the problems encountered in drilling the well is recognized using the percentage-of-completion method based upon costs incurred to date and estimated total contract costs.

Anticipated losses, if any, on uncompleted integrated services contracts are recorded at the time the estimated costs exceed the contract revenue. The customer contract terms do not include a provision for post-delivery obligations.

CanGas primarily earns revenue from equipment rental and service delivery. Revenue earned from contracts is recognized upon the passage of time and delivery of service to customers and only when collection is reasonably assured.

n) Leases

Leases with terms where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Corporation's statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Leases (continued)

Payments made under operating leases are recognized in income or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Corporation the right to control the use of the underlying asset.

At inception of the arrangement, the Corporation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Corporation concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Corporation's incremental borrowing rate.

o) Interest income and interest costs

Interest income is comprised of interest income on funds invested. Interest income is recognized as it accrues in income or loss, using the effective interest method.

Interest costs is comprised of interest expense on borrowings, changes in the fair value of financial assets at fair value through income or loss, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset such as fees are amortized and recognized in the statement of comprehensive income over the term of the debt facility that the costs relate to.

p) Income tax

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Income tax (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current or/and deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

q) Earnings per share

The Corporation presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the income or loss attributable to ordinary shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the treasury stock method by adjusting the income or loss attributable to ordinary shareholders and the weighted average number of common shares outstanding based on the assumption that any proceeds obtained on exercise of stock options and warrants would be used to purchase common shares at the average market price during the period.

r) Dividends

Dividends on common shares are recognized in the Corporation’s financial statements in the period in which the dividends are approved by the Board of Directors.

4. BUSINESS COMBINATIONS

Highkelly Drilling Ltd.

On December 5, 2013 the Corporation acquired all the issued and outstanding common shares of Highkelly Drilling Ltd. ("Highkelly") for cash and share consideration. Highkelly was acquired to continue the growth of the Corporation's activities in the oil and gas drilling business.

The acquisition has been accounted for using the purchase method of accounting with an effective date of December 5, 2013 (the "acquisition date"), whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill. In determining the consideration for the Highkelly acquisition, the fair value of the CanElson shares was $6.16 per share based on the closing publicly traded price on the acquisition date. The aggregate consideration for the Highkelly acquisition consists of the following:

Common shares issued (2,619 shares at $6.16 per common share)	$	16,132
Cash		17,847
Total consideration for the acquisition	$	33,979

As of the acquisition date, Highkelly's operating results have been included in the Corporation's revenues, expenses and capital spending. The following summarizes the allocation of the aggregate consideration for the Highkelly acquisition:

Purchase Price Allocation:		
Current assets	$	4,248
Current liabilities		(467)
Rigs and equipment		38,000
Deferred tax liability		(2,150)
Loans and borrowings		(10,160)
Goodwill		4,508
	$	33,979

The goodwill is attributable mainly to the skills and technical talent of Highkelly's work force, and the synergies expected to be achieved from integrating the company into the Corporation's existing business. None of the goodwill recognized will be deductible for income tax purposes.

The Corporation incurred acquisition related costs of $383 relating to external legal fees and due diligence costs which were expensed in the year.

As part of the acquisition, the Corporation, obtained a finance lease that relates to drilling equipment (note 8) and entered into a commitment to purchase a drilling rig at a contract price of $17,550 US dollars, which was delivered in the fourth quarter of 2014.

Highkelly was acquired and integrated with the Corporation's existing operations and therefore specific income information in respect of Highkelly is not included in these financial statements.

4. BUSINESS COMBINATIONS (continued)

Calmena Energy Services Inc.

The Corporation closed an acquisition of assets from Calmena Energy Services Inc. (Calmena) Alberta, which had a closing date of July 24, 2013, and effective date of July 19, 2013. The assets included 100% ownership of three fully crewed and contracted drilling rigs, spare equipment, as well as land and building located in Leduc, Alberta. There was no working capital or other liabilities acquired or assumed. The acquisition was completed in order to expand the Corporation's service offering to provide additional pad drilling services and horizontal oil drilling with new and existing customers.

The acquisition has been accounted for using the purchase method of accounting, whereby the assets acquired and the liabilities assumed are recorded at their fair value with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill. The aggregate consideration paid was $15 million of cash.

As of the effective date the operating results of the assets have been included in the Corporations' revenue, expenses and property and equipment. The following summarizes the allocation of the aggregate consideration for the Calmena acquisition.

Purchase Price Allocation:		
Land and building	$	1,350
Rigs & equipment		13,650
	$	15,000

The Corporation incurred acquisition related costs of $192 relating to external legal fees and due diligence costs which were expensed in the year.

Calmena was acquired and integrated with the Corporation's existing operations and therefore specific income information in respect of Calmena is not included in these financial statements.

5. PROPERTY AND EQUIPMENT

	Rigs & accessories	Rental equipment	Deposits & rigs under construction	Land	Buildings	Office furniture & equipment	Total
Cost							
Balance at January 1, 2013	$ 314,007	$ 11,096	$ 9,222	$ 2,022	$ 3,380	$ 1,147	$ 340,874
Acquisition through business combination (note 4)	51,650	—	—	1,000	350	—	53,000
Additions	47,817	9,597	18,553	—	465	415	76,847
Transfers	9,222	—	(9,222)	—	—	—	—
Disposals	(1,440)	(83)	—	—	—	—	(1,523)
Effect of movements in exchange rates	13,639	—	—	3	44	15	13,701
Balance at December 31, 2013	$ 434,895	$ 20,610	$ 18,553	$ 3,025	$ 4,239	$ 1,577	$ 482,899
Additions	37,555	5,564	55,915	—	217	564	99,815
Disposals	(4,543)	(166)	—	(1,000)	(350)	—	(6,059)
Transfers	66,356	—	(66,356)	—	—	—	—
Decommission of assets	(2,478)	(1,857)	—	—	—	—	(4,335)
Effect of movements in exchange rates	15,858	—	—	2	38	14	15,912
Balance at December 31, 2014	$ 547,643	$ 24,151	$ 8,112	$ 2,027	$ 4,144	$ 2,155	$ 588,232
Depreciation							
Balance at January 1, 2013	$ 32,469	$ 199	$ —	$ —	$ 288	$ 274	$ 33,230
Depreciation for the year	$ 21,114	$ 1,237	$ —	$ —	$ 254	$ 326	$ 22,931
Disposals	(400)	(6)	—	—	—	—	(406)
Effect of movement in exchange rates	4,872	—	—	—	5	10	4,887
Balance at December 31, 2013	$ 58,055	$ 1,430	$ —	$ —	$ 547	$ 610	$ 60,642
Depreciation for the year	30,179	1,489	—	—	259	565	32,492
Disposals	(2,788)	(19)	—	—	(17)	—	(2,824)
Decommission of assets	(888)	(81)	—	—	—	—	(969)
Effect of movements in exchange rates	2,857	—	—	—	4	9	2,870
Balance at December 31, 2014	$ 87,415	$ 2,819	$ —	$ —	$ 793	$ 1,184	$ 92,211
Carrying amounts							
At December 31, 2013	$ 376,840	$ 19,180	$ 18,553	$ 3,025	$ 3,692	$ 967	$ 422,257
At December 31, 2014	$ 460,228	$ 21,332	$ 8,112	$ 2,027	$ 3,351	$971	$ 496,021

During 2014, the Corporation incurred a $3,366 loss on the decommissioning of certain rig accessories and rental equipment, which is recognized in the statement of comprehensive income within the loss on disposal and decommission of assets. The assets were decommissioned due to the inefficient nature of the assets and the high cost to maintain. $1,590 of the charge was allocated to the Drilling CGU and $1,776 was allocated to the CNG and RGT transport CGU.

6. GOODWILL AND INTANGIBLE ASSETS

		Goodwill		Capitalized development
Cost				
Balance at January 1, 2013	$	31,188	$	1,330
Acquisition through business combination (note 4)		4,508		—
Additions		—		727
Balance at December 31, 2014 and 2013	$	35,696	$	2,057
Amortization				
Balance at December 31, 2013	$	—	$	185
Amortization for the year		—		118
Balance at December 31, 2014	$	—	$	303
Carrying amounts				
At December 31, 2013	$	35,696	$	1,872
At December 31, 2014	$	35,696	$	1,754

The aggregate carrying amount of goodwill and intangible assets is allocated to the Drilling CGU.

Management performed an impairment analysis of the carrying value of goodwill and has made the determination that the recoverable amount of the Drilling CGU assets exceeds their carrying amount, including goodwill. The recoverable amount of the Drilling CGU was determined based on a value in use calculation which utilizes a five year cash flow projection based on the Corporation's currently planned and approved budget for 2015 and for the ensuing four years. The projected cash flows are based on managements best estimate of equipment utilization rates, pricing and required maintenance capital. The key assumptions that would impact the estimated recoverable amount are the projected cash flows and discount rates. The cash flows beyond that five year period have been extrapolated using a terminal multiple of 7 on terminal cash flow. Management used a pre-tax discount factor of 15% in assessing the recoverable amount of this CGU.

A 5% change in the projected cash flows or a 0.5% change in the discount rate, in isolation, would not change the conclusion that the recoverable amount of the Drilling CGU exceed its carrying amount.

7. INCOME TAXES

Income tax recognized in profit or loss:

Year ended December 31,	2014	2013
Current tax expense in the current year	$ 2,101	$ 2,864
Deferred tax expense:		
Deferred tax expense recognized in the current year	18,786	16,173
Other	(2,855)	(1,509)
Total income tax expense	$ 18,032	$ 17,528

The income tax expense for the year can be reconciled to the accounting profit as follows:

Year ended December 31,	2014	2013
Income before taxes	$ 67,231	$ 59,567
Income tax rate	25.8 %	25.8 %
Expected income tax	17,346	15,368
Increase (decrease) resulting from:		
Rate reduction on deferred income taxes	(320)	22
Expenses that are not deductible in determining taxable profit	567	560
Effect of different tax rates of subsidiaries operating in other jurisdictions	3,468	3,506
Statutory and other rate differences	(3,029)	(1,928)
Total income tax expense	$ 18,032	$ 17,528

Deferred tax balances:

	Assets		Liabilities		Net	
Year ended December 31,	2014	2013	2014	2013	2014	2013
Property and equipment	$ —	$ —	$ 78,622	$ 61,905	$ 78,622	$ 61,905
Share issue costs	(850)	(1,209)	—	—	(850)	(1,209)
Other items	—	(32)	362	771	362	739
Finance lease obligation	—	(1,819)	—	—	—	(1,819)
Tax loss carry-forwards	(3,675)	(3,942)	—	—	(3,675)	(3,942)
Tax (assets) liabilities	(4,525)	(7,002)	78,984	62,676	74,459	55,674
Set off of tax	3,315	6,253	(3,315)	(6,253)	—	—
Deferred tax (assets) liabilities	$ (1,210)	$ (749)	$ 75,669	$ 56,423	$ 74,459	$ 55,674

7. INCOME TAXES (continued)

	Balance January 1, 2013	Recognized in profit or loss	Recognized directly in equity	Acquired in business combination	Balance December 31, 2013
Property and equipment	$ (43,912)	$ (11,957)	$ —	$ (6,622)	$ (62,491)
Share issue costs	733	484	984	—	2,201
Other items	(289)	(552)	—	—	(841)
Finance lease obligation	—	(183)	—	2,003	1,820
Tax loss carry-forwards	5,133	(3,965)	—	2,469	3,637
	$ (38,335)	$ (16,173)	$ 984	$ (2,150)	$ (55,674)

Deferred tax balances (continued):

	Balance January 1, 2014	Recognized in profit or loss	Balance December 31, 2014
Property and equipment	$ (62,491)	$ (16,668)	$ (79,159)
Share issue costs	2,201	(356)	1,845
Other items	(841)	405	(436)
Finance lease obligation	1,820	(1,820)	—
Tax loss carry-forwards	3,637	(346)	3,291
	$ (55,674)	$ (18,786)	$ (74,459)

8. LOANS AND BORROWINGS

	Available Amount		Outstanding Balance		Interest rate per annum	Maturity date
As at December 31,	2014	2013	2014	2013		
The Corporation's Facilities						
Operating loan	$ 10,000	$ 10,000	$ 1,432	$ 5,495	(i)	due on
Revolving loan	110,000	110,000	47,000	25,000	(i)	(ii)
Finance lease obligations	—	6,133	—	6,133		
	$ 120,000	$ 126,133	$ 48,432	$ 36,628		
CanElson 120601 Drilling Limited Partnership #1 Facilities ("LP#1")						
Operating loan (iii)	$ 502	$ 884	$ —	$ —	(iv)	due on
Non-revolving loan	900	1,950	900	1,950	(v)	(vi)
	$ 1,402	$ 2,834	$ 900	$ 1,950		
CanElson 120601 Drilling Limited Partnership #3 Facilities ("LP#3")						
Operating loan (vii)	$ 252	$ 312	$ —	$ —	(viii)	due on
Non-revolving loan	2,553	3,585	2,553	3,585	(ix)	(x)
	$ 2,805	$ 3,897	$ 2,553	$ 3,585		
Total	$ 124,207	$ 132,864	$ 51,885	$ 42,163		
Less: net unamortized debt			152	392		
Less: current portion			4,885	17,163		
Total long-term debt			$ 46,848	$ 24,608		

The Corporation's Loan Facilities

The Corporation's loan facilities are secured by charges on all present and future property of the Corporation and its wholly owned subsidiaries.

(i) The operating loan and revolving loan bear interest based on election of one of the following options when funds are drawn:

a. The bank's Canadian prime lending rate plus 0.5% to 1.5%
b. The US prime rate plus 0.5% to 1.5%
c. The US Libor rate plus 1.5% to 2.5%
d. The BA rate plus 1.5% to 2.5%.

The Corporation elected both the bank's Canadian prime lending rate and the BA rate for revolving loan draws during 2014. Interest is paid on a monthly basis when funds are drawn, with the BA interest paid at the time of acceptance.

(ii) Unless otherwise extended, revolving loan amounts become due on the maturity date which is December 19, 2018. No principal payments are due until then.

8. LOANS AND BORROWINGS (continued)

LP #1 Facilities

LP #1’s facilities are secured by charges on all present and future property of LP#1 and 1703090 Alberta Ltd., the general partner of LP#1. The Corporation has not provided a guarantee on the LP #1 facilities. LP #1 is an entity owned 50% by the Corporation (note 15).

(iii) Available amount is the lesser of $1,000 or 75% of LP#1's Canadian accounts receivable aged less than 90 days.
(iv) The operating loan bears interest when funds are drawn at the bank’s prime lending rate plus 1.5%.
(v) The non-revolving loan bears interest when funds are drawn at the bank’s prime lending rate plus 2%.
(vi) Interest is paid on a monthly basis. Unless otherwise demanded by the bank, all amounts shall be paid over an amortization period of 60 months starting January 31, 2013.

LP#3 Facilities

LP #3’s facilities are secured by charges on all present and future property of LP#3 and 1737804 Alberta Ltd., the general partner of LP#3. The Corporation has not provided a guarantee on the LP #3 facilities. LP #3 is an entity owned 50% by the Corporation (note 15).

(vii) Available amount is the lesser of $1,000 or 75% of LP#3's Canadian accounts receivable less than 90 days.
(viii) The operating loan bears interest when funds are drawn at the bank’s prime lending rate plus 1.5%.
(ix) The non-revolving loan bears interest when funds are drawn at the bank’s prime lending rate plus 1.75%.
(x) Interest is paid on a monthly basis. Unless otherwise demanded by the bank, all amounts shall be paid over an amortization period of 72 months starting September 30, 2013.

The Corporation, LP#1 and LP#3 were in compliance with loan covenants at December 31, 2014 and 2013. The covenants are as follows:

Covenants on the Corporation’s Facilities

- Tested quarterly, the ratio of Funded Debt to Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) for any trailing four fiscal quarters shall not exceed 3.00:1;
- Tested quarterly, EBITDA to Interest Expense Ratio for any trailing four fiscal quarters shall not be less than 3.00:1;
- Ensure that the principal amount of all advances, in aggregate, under the operating loan does not exceed, at any time, the operating loan commitment;
- Ensure that the principal amount of all advances, in aggregate, under the revolving loan does not exceed, at any time, the revolving loan commitment;

8. LOANS AND BORROWINGS (continued)

Covenants on the Corporation's Facilities (continued)

With respect to the financial covenants, the following definitions are applicable:

i) "Funded Debt" means, with reference to the Borrower on a consolidated basis, all senior secured obligations, liabilities and indebtedness (including the principal portion of Capital Leases, Purchase Money Security Interests and any outstanding amount of letters of credit and letters of guarantee) which would, in accordance with GAAP, be classified on a consolidated balance sheet of the Borrower as indebtedness for borrowed money of the Borrower or any other Loan Party.

ii) "EBITDA" means, with respect to any Person for any period, the consolidated net income of such Person for such period determined in accordance with GAAP plus (a) Interest Expense for such period, to the extent deducted in determining any portion of such net income; (b) extraordinary and non-recurring losses, to the extent deducted in determining any portion of such net income; (c) all amounts deducted in the calculation of any portion of the net income for such period in respect of the provisions for Cash Taxes (in accordance with GAAP); (d) all amounts deducted in the calculation of any portion of the net income for such period in respect of non-cash items including depreciation, stock based compensation, unrealized losses on financial instruments, hedging agreements (including foreign exchange and interest rate swaps), amortization and deferred or future Taxes (in accordance with GAAP), less (e) extraordinary and non-recurring earnings and gains, to the extent included in the calculation of net income; (f) all amounts added in the calculation of any portion of net income for such period in respect of non-cash items including all unrealized gains on financial instruments and hedging agreements (including foreign exchange and interest rate swaps) and the write-up of assets; and (g) any such consolidated net income attributable to or generated from any Excluded Party, except for cash Distributions actually received by a Loan Party therefrom.

iii) "Interest Expense" means, (a) all interest accrued or payable in respect of such period; (b) all fees (including standby, letter of credit, guarantee, commitment and bankers' acceptances fees) accrued or payable in respect of such period and which relate to any Funded Debt, prorated (as required) over such period; (c) any difference between the Face Amount and the discount proceeds of any bankers' acceptances, commercial paper and other obligations issued at a discount, prorated (as required) over such period; (d) the interest component of Capital Lease obligations; and (e) all net amounts charged or credited to interest expense under any Interest Rate Hedge Agreements in respect of such period.

Covenants on LP #1 & LP #3 Facilities

During the fourth quarter of 2014, LP#1 and LP#3 had their facilities amended to the following:

- Tested monthly, shall not allow its current assets to current liabilities (excluding current portion of loans and borrowings) to at any time be less than 1.25:1. For the months of November 2014 to March 2015, the ratio will be permitted to be no less than 1.00:1 for LP #3.

- Tested monthly, shall not allow its debt to tangible net worth exceed 2.5:1.

- Tested annually (commencing December 31, 2015 for LP #3), shall not allow its Cash Flow (income before interest, taxes, depreciation and amortization) to Debt Service (sum of all interest paid together with annual principal payments on the respected LP's Facilities) at any time be less than 1.25:1. Contributions from the Corporation via equity or postponed loans and applied voluntary reduction in term loan shall be included as cash flow for that fiscal year.

9. TRADE AND OTHER PAYABLES

As at December 31,		2014		2013
Trade payables	$	6,778	$	9,927
Accrued payables		21,281		16,793
	$	28,059	$	26,720

Depending on the credit terms of the trade payable, interest will be charged after a predetermined number of days from the date of the invoice. The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

10. SHARE CAPITAL

a) Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of December 31, 2014.

b) Foreign Currency Translation Reserve

Foreign Currency Translation Reserve is the cumulative translation account that comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

c) Employee Benefit Reserve

Employee Benefit Reserve is the account that comprises solely of stock based compensation expense and stock option exercises.

d) Shares Issued for Cash

On June 13, 2013 the Corporation issued 5,980 common shares at a price of $4.85 per common share for aggregate gross proceeds of approximately $29,003.

On October 10, 2013 the Corporation issued 5,635 common shares at a price of $6.20 per common share for aggregate gross proceeds of approximately $34,937.

e) Stock Options

The Corporation may grant options to its employees, executives, and board of directors or others up to a maximum of 10% of the issued and outstanding common shares. The options exercise price equals the market price of the Corporation’s common shares on the date of grant. Initial stock option grants vest evenly over periods ranging from one year to three years. Stock option reloads are granted in the year of expiry of an initial grant, vest three years from grant and expire one year after vesting. In 2013, 420 options were granted to the Board of Directors of which 212 vested immediately, 50 on October 16, 2014 and 158 on October 16, 2015.

10. SHARE CAPITAL (continued)

A summary of the Corporation's outstanding stock options as at December 31, 2014 and 2013, and the changes for the years then ended, are as follows:

	Outstanding	Weighted Average Exercise Price
Outstanding at January 1, 2013	5,235	$ 4.19
Granted to employees, executives and directors	3,467	5.97
Exercised	(1,479)	3.52
Forfeited	(780)	4.97
Expired	(198)	4.08
Outstanding at December 31, 2013	6,245	$ 5.22
Granted to employees, executives and directors	1,014	$ 6.87
Exercised	(1,043)	4.23
Forfeited	(590)	5.48
Expired	(168)	5.60
Outstanding at December 31, 2014	5,458	$ 5.67

	Total Outstanding			Exercisable		
Range of Exercise Prices	Number	Weighted Average Remaining Contractual	Weighted Average Exercise Price	Number	Weighted Average Remaining Contractual	Weighted Average Exercise Price
Employees, executives and directors						
$ 3.90 - 4.95	1,017	0.80	$ 4.13	864	0.68	$ 4.05
$ 4.96 - 5.38	1,368	1.61	5.19	222	0.49	5.23
$ 5.39 - 5.99	430	2.53	5.74	29	0.20	5.50
$ 6.00 - 6.24	1,437	2.43	6.20	136	0.80	6.20
$ 6.25 - 7.60	1,206	2.14	6.87	203	0.82	6.30
	5,458	1.86	$ 5.67	1,454	0.67	$ 4.78

f) Stock Based Compensation

For the years ended December 31, 2014 and 2013, the Corporation recorded stock based compensation expense in the consolidated statement of comprehensive income related to the stock options issued to directors and employees.

10. SHARE CAPITAL (continued)

The following assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2014	2013
Risk-free interest rate	1.0 - 1.3%	1 - 1.6%
Expected life of options	1.9 - 3.9 years	0.7 - 3.7 years
Annualized volatility	26.0 - 37.8%	24.0 - 47.3%
Dividend rate	3.2 - 4.2%	3.8 - 4.6%
Forfeiture rate	11.6 - 11.9%	10.0 - 11.9%

The estimated fair value of the options granted during the year was $895 (2013: $2,953) and will be recognized as an expense over the vesting periods of the options.

The fair value of the share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behaviour), the expected dividends, the estimated forfeiture rate, and the risk-free interest rate (based on government bonds).

g) Employee Stock Savings Plan

The Corporation has an Employee Stock Savings Plan (the “Plan”) and a 401K Plan (“401K”). Under the Plan and the 401K, an employee may contribute varying percentages of their base salary, depending upon their position. The Corporation will also contribute varying percentages of their base salary depending upon their position and the employees contribution levels. Under the Plan, employee and the Corporation contributions are used to purchase common shares of the Corporation on the open market. Under the 401K, only the Corporation’s contributions are used to purchase common shares of the Corporation on the open market. During the year ended December 31, 2014, the Corporation contributed $1,349 (2013: $820) under the Plan and 401K.

11. SEGMENTED INFORMATION

Management evaluates the Corporation's performance on a geographically segmented basis. The composition of geographic segments and segment information reported in the consolidated financial statements are consistent with the internal management reporting provided to the key management.

The Corporation has identified the following two reportable geographical segments: Canada and the US.

	2014			2013		
As at and for the year ended December 31,	Canada	US	Total	Canada	US	Total
External revenue	$ 174,608	$ 164,921	$ 339,529	$ 132,255	$ 124,749	$ 257,004
Depreciation and amortization	18,661	13,748	32,409	12,830	10,214	23,044
Loss on disposal and decommissioning of	3,935	—	3,935	—	—	—
Interest expense	467	22	489	1,977	—	1,977
Income tax expense	7,831	10,201	18,032	6,563	10,965	17,528
Income attributed to shareholders of the Corporation	20,023	22,563	42,586	14,993	20,565	35,558
Assets	392,559	221,800	614,359	391,887	154,919	546,806
Liabilities	109,520	47,249	156,769	94,367	33,529	127,896
Goodwill & intangibles	37,450	—	37,450	37,568	—	37,568
Property and equipment, net	305,396	190,625	496,021	290,535	131,722	422,257
Capital expenditures, net	35,903	59,927	95,830	47,918	27,773	75,691
Capitalized development costs	—	—	—	727	—	727

For the year ended December 31, 2014, the Corporation had two customers (2013: two customers) in the Canadian segment and three customers (2013: two customers) in the US segment that each accounted for more than 10% of their respective segment's revenue. These customers accounted for 23% and 18% of Canadian revenue (2013: 23% and 20%) and 24%, 20% and 19% of US revenue (2013: 30% and 29%).

There are no material differences in the basis of accounting or the measurement of income, assets and liabilities between the Corporation and reported segment information, except that certain inter-company liabilities and equity are offset with the assets of the US segment.

12. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities.

a) Capital Management

The Corporation defines capital as the Corporation's shareholders' equity and loans and borrowings, which at December 31, 2014 was $486,506 (2013: $437,517). The Corporation's objective is to safeguard its ability to continue as a going concern given the cyclical nature of the oil and gas services business and provide returns to shareholders. The Corporation manages its capital structure to ensure the available amounts are adequate for business requirements and the rates charged for capital are competitive. Availability of capital is important to future success and as such, the Corporation endeavours to maintain strong relationships with the capital investment community. Methods employed to adjust the Corporation's capital structure could include any, all, or a combination of: (1) issue new shares through a public offering or private placement; (2) expand and or refinance existing loans and borrowings; (3) issue fixed or floating rate debt; (4) payment of dividends; (5) repurchase the Corporation's common shares; and (6) enter into forms of partnerships using the Corporation's existing or newly assembled property and equipment asset base.

The Corporation is not currently subject to any externally imposed capital requirements, other than its bank covenants as is disclosed in note 8. There were no changes in the Corporation's approach to capital management during the year.

b) Credit Risk

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the credit worthiness of its customers before providing services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry.

Substantially all of the Corporation's cash is deposited with major Canadian and United States chartered bank and management believes the risk of credit loss is remote.

12. FINANCIAL RISK MANAGEMENT (continued)

b) Credit Risk (continued)

The Corporation's trade and other receivables aging is as follows:

Year ended December 31,	2014	2013
Within 30 days	$ 40,383	$ 40,739
31 to 60 days	12,140	14,090
61 to 90 days	2,544	5,596
Over 90 days	5,507	4,630
Accounts receivable	$ 60,574	$ 65,055

The carrying amount of financial assets represents the maximum credit exposure.

c) Liquidity Risk

At December 31, 2014, the Corporation had positive net working capital (current assets less current liabilities, excluding loans and borrowings) of $41,904 (2013: $50,918) and had available approximately $8,568 on its operating loan (2013: $4,505) and $63,000 available on its revolving loan (2013: $85,000) (note 8). At December 31, 2014, the Corporation was committed to various financial and non-financial obligations (note 13) which require the Corporation to have available various sources of capital and will require the Corporation to generate future operating cash flow to meet the commitments associated with these financial obligations.

The Corporation is exposed to liquidity risk. Liquidity risk is the exposure of the Corporation to the risk of not being able to meet its financial obligations as they become due. The Corporation manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants (note 8), and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Corporation's liquidity needs. The Corporation's existing credit facilities and cash flow from operating activities are expected to be greater than anticipated capital expenditures and the contractual maturities of the Corporation's financial liabilities for 2015. This expectation could be adversely affected by a sustained material negative change in the oil and gas services business in North America.

d) Market Risk

i) Interest rate risk

The Corporation is exposed to interest rate risk on its floating rate loans and borrowings. The Corporation has the ability to enter into economic hedges on its interest bearing loans and borrowings, but has not done so to date. Management believes that a 1% interest rate change during the next year would be reasonably possible.

During 2014, a 1% change in the interest rate on the outstanding $51,733 (2013: $41,771) of loans and borrowings would increase or decrease net and comprehensive income (loss) by $517 (2013: $418) before tax.

12. FINANCIAL RISK MANAGEMENT (continued)

d) Market Risk (continued)

ii) Foreign currency risk

The Corporation is exposed to foreign currency fluctuations on its financial instruments primarily in relation to its US dollar denominated cash, accounts receivable and accounts payable. The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the US dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding US dollar denominated accounts payable. The Corporation believes a fluctuation of the US dollar relative to the Canadian dollar of 10% during the next year would be reasonably possible.

The Corporation's exposure to foreign currency relates to the US dollar denominated balances as follows:

For the year ended December 31,		2014		2013
Cash		1,372	$	3,862
Non-cash current financial assets		23,664		18,423
Non-cash current financial liabilities		(9,286)		(7,965)
Net U.S. dollar exposure	$	15,750	$	14,320
Effect of plus (minus) 10% change in the US dollar to Canadian dollar exchange rate on income before tax	$	1,575	$	716

At December 31, 2014, the Corporation was not exposed to significant foreign currency risk on its financial instruments related to the Mexican peso.

e) Fair Value

Financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgement associated with the inputs used to measure their fair value. Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair determination of these assets and liabilities are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Corporation's cash and cash equivalents are the only financial assets or liabilities measured using fair value. The Corporation's cash and cash equivalents are categorized as level 1 as there are quoted prices in an active market for these instruments.

12. FINANCIAL RISK MANAGEMENT (continued)

e) Fair Value (continued)

The carrying value of trade and other receivables and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments, with the exception of the receivable owed to the Corporation's joint venture (note 16).

The Corporation does not have any assets or liabilities that would be considered level 2 or 3. The carrying value of loans and borrowings approximates its fair value as it bears interest at floating interest rates.

13. COMMITMENTS

Property and equipment

The Corporation has committed to, or expects to commit to the purchase of approximately $17,900 (2013: $95,500) of property and equipment related to rig construction, purchase of CNG and RGT related equipment, purchase of spare equipment and capital maintenance expenditures for the 2015 fiscal year.

Operating Leases

The non-cancellable operating lease rentals are payable as follows:

As at As at December 31,		2014		2013
Less than one year	$	738	$	638
Between one and five years		1,296		750
	$	2,034	$	1,388

The Corporation leases a number of offices and yard facilities under operating leases. The leases typically run for a period of up to five years, with an option to renew the lease after that date.

The Corporation has entered into a natural gas supply agreement with a natural gas distribution company. The agreement requires the Corporation purchase a minimum amount of natural gas over a period of 2 years. The Corporation’s remaining commitment during this period is $350.

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Year ended December 31,	2014	2013
Income attributed to shareholders of the Corporation:		
Net income	$ 42,586	$ 35,558
Weighted average number of common shares:		
Number of common shares at beginning of year	91,931	76,218
Effect of shares issued during the year	541	5,299
Weighted average number of common shares at end of year	92,472	81,517

Diluted earnings per share is calculated by dividing net income for the year attributable to common shareholders by the weighted average diluted number of common shares outstanding during the year.

Year ended December 31,	2014	2013
Income attributed to shareholders of the Corporation		
Net income	$ 42,586	$ 35,558
Weighted average number of diluted shares		
Weighted average number of common shares at end of year	92,472	81,517
Shares deemed to be issued for no consideration in respect of		
Employee stock options	840	1,009
Weighted average number of diluted common shares at end of year	93,312	82,526

For the year ended December 31, 2014, the above table excludes 155 (2013: nil) options, respectively that are considered anti-dilutive.

15. CORPORATE ENTITIES

Although the Corporation owns less than 51 percent of the voting rights of Midland C Ranch Holdings, LLC, ("Midland"), LP #1 and LP #3, the Corporation controls the relevant activities of these entities through services performed by virtue of contractual arrangements. Consequently, the Corporation consolidates its investments in these entities. Non-controlling interest represents the interest of non-controlling units held by a third party. The Corporation also owns a 50% interest in DCM described in note 16.

			Ownership interest	
		Country of	December 31,	
Name of entity	Principal activities	incorporation	2014	2013
CanElson Drilling Inc.	Operating land based contract drilling rigs	Canada	100	100
CanGas Solutions Inc.	CNG and RGT transportation	Canada	100	100
1703090 Alberta Ltd.	General partner of LP #1	Canada	100	100
1735664 Alberta Ltd.	General partner of LP #2	Canada	100	100
1737804 Alberta Ltd.	General partner of LP #3	Canada	100	100
CanElson 120601 Drilling Limited Partnership #1 (LP#1)	Operating land based contract drilling rigs	Canada	50	50
CanElson 120601 Drilling Limited Partnership #2 (LP#2)	Operating land based contract drilling rigs	Canada	54.4	54.4
CanElson 120601 Drilling Limited Partnership #3 (LP#3)	Operating land based contract drilling rigs	Canada	50	50
CanElson Drilling (US), Inc.	Operating land based contract drilling rigs	United States	100	100
CanGas (US) Inc.	CNG and RGT transportation	United States	100	NA
CanElson Management, LLC	General partner of Midland	United States	100	100
Midland C Ranch Holdings, LLC	Operating land based contract drilling rigs	United States	50	50
CanElson Odessa Drilling, LLC	Operating land based contract drilling rigs	United States	100	100
CanElson Permian Drilling, LLC	Operating land based contract drilling rigs	United States	100	100
CanElson Spraberry Drilling, LLC	Operating land based contract drilling rigs	United States	100	100
CanElson Delaware Drilling, LLC	Operating land based contract drilling rigs	United States	100	100
Diavaz CanElson de Mexico S.A. de C.V.	Operating land based contract drilling rigs	Mexico	50	50

See accompanying notes to these consolidated financial statements

15. CORPORATE ENTITIES (continued)

As at and for the year ended December 31,	LP #1		LP #2		LP #3		Midland		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Non-controlling interest percent	50%	50%	45.6%	45.6%	50%	50%	50%	50%		
Current assets	$ 815	$ 1,624	$ 976	$ 1,020	$ 644	$ 840	$ 5,186	$ 7,575	$ 7,621	$ 11,059
Current liabilities	2,150	4,119	3,825	4,560	3,053	3,695	—	—	9,028	12,374
	(1,335)	(2,495)	(2,849)	(3,540)	(2,409)	(2,855)	5,186	7,575	(1,407)	(1,315)
Non-current assets	7,905	7,346	8,521	7,958	8,207	8,365	22,907	23,973	47,540	47,642
Non-current liabilities	—	—	—	—	—	—	—	—	—	—
	7,905	7,346	8,521	7,958	8,207	8,365	22,907	23,973	47,540	47,642
Net assets	6,570	$ 4,851	5,672	4,418	5,798	$ 5,510	28,093	$ 31,548	$ 46,133	$ 46,327
Non-controlling interest of net assets	3,285	2,426	2,586	2,209	2,899	2,755	14,047	15,774	22,817	23,164
Accumulated non-controlling interest	3,285	2,426	2,586	2,209	2,899	2,755	14,047	15,774	22,817	23,164
Revenue	5,286	2,925	4,546	1,983	3,413	3,017	36,230	33,830	49,475	41,755
Net profit	1,350	655	831	415	280	510	10,838	11,418	13,299	12,998
Other comprehensive income	—	—	—	—	—	—	550	1,080	550	1,080
Total comprehensive income	1,350	655	831	415	280	510	11,388	12,498	13,849	14,078
Profit allocated to non-controlling interest	675	328	379	189	140	255	5,694	6,249	6,888	7,021
Distributions paid to subsidiary's NCI	—	150	—	—	—	—	7,235	4,358	7,235	4,508
Disposition of ownership of a rig held in	—	—	—	2,020	—	2,500	—	—	—	4,520
Summarized cash flows:										
Operating activities	2,221	2,646	1,867	1	640	(26)	—	—	4,728	2,621
Investing activities	(568)	118	(129)	—	(113)	—	—	—	(810)	118
Financing activities	(2,046)	(2,383)	(1,738)	—	(844)	628	—	—	(4,628)	(1,755)

16. INVESTMENT IN JOINT VENTURE

The Corporation conducts its operations in Mexico through a 50% ownership interest in DCM, which is reported in these consolidated financial statements using the equity method of accounting. DCM is a joint venture due to the fact that the joint venture partners have joint control over the relevant activities and therefore DCM is accounted for using the equity method.

As at December 31, 2014 DCM had an outstanding trade payable due to the Corporation of $1,396 (2013: $1,480).

Year ended December 31,	2014	2013
Cash & cash equivalents	$ 1,348	$ 5,716
Non-cash current assets	33,980	21,106
Current liabilities	22,882	12,776
	12,446	14,046
Non-current assets	20,342	18,016
Non-current liabilities	14,170	17,938
	6,172	78
Net assets	$ 18,618	$ 14,124
Corporation's share of unconsolidated joint venture net assets	$ 9,309	$ 7,062
Total revenue	34,493	31,010
Total profit for the year	5,361	3,552
Total depreciation for the year	3,590	1,334
Total foreign exchange loss (gain)	(2,706)	232
Total interest expense	1,561	782
Total income tax expense	2,320	1,522
Corporation's share of profits of unconsolidated joint venture	2,681	1,776
Corporation's share of other comprehensive income (loss)	(434)	228
Corporation's share of total comprehensive income	2,247	2,004

As at December 31, 2014, the non-cash current assets includes $31,700 of account receivables, discounted at 12% and assuming a 2 year collection period. The account receivables were due primarily from one customer.

17. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management personnel during the year were as follows:

Year ended December 31,		2014		2013
Short-term employee benefits (included in administration expenses)	$	3,720	$	3,748
Share-based payment benefits (included in stock based compensation)		905		749
	$	4,625	$	4,497

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Corporation, directly or indirectly, including any directors (whether executive or otherwise) of the Corporation.

18. SUBSEQUENT EVENT

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.

Subsequent to year end, DCM collected $11,323 of it's December 31, 2014 accounts receivable balance, as described in note 16.

Corporate Information

Management Team

W. Randy Hawkings
President, Chief Executive Officer and Director

William Kosich
Chief Operating Officer

Robert Skilnick
Chief Financial Officer

Lawrence Kolasa
Vice President, Rig Construction

Michael (Cannon) Smith
Vice President, GM—Sask & US Rocky Mountain Region

Ryan Hawkings
Vice President, Operations

Board of Directors

Elson J. McDougald
Executive Chairman

W. Randy Hawkings

Donald R. Seaman[1]

Kent Jespersen[1*,4]

Daniel G. Kolibar[1,2*]
Corporate Secretary

Rodger Hawkins[2,3*,4]

Dale Johnson[2,3,4*]

Scott Bratt[3]

Diane Brickner[3]

1—Member of the Compensation Committee
2—Member of the Corporate Governance Committee
3—Member of the Audit Committee
4—Member of the Health, Safety & Environment Committee
* Denotes Chair

Auditors

Deloitte LLP

Legal Cousel

Osler, Hoskin & Harcourt LLP

Main Banks

HSBC Bank Canada

Bank Syndicate

HSBC Bank Canada
Royal Bank of Canada
The Bank of Nova Scotia
ATB Financial

Toronto Stock Exchange Listing

CDI

Transfer Agent

Olympia Trust Company

Corporate Office

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