



MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2015

CANELSON DRILLING INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

At July 30, 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 December 31, 2014 MD&A; (3) the June 30, 2015 unaudited condensed consolidated financial statements prepared in accordance with IFRSs; and (4) the Annual Information Form for the year ended December 31, 2014. Additional information regarding CanElson 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, drilling days, utilization rate and depths in metres.

OVERVIEW OF OPERATING AND FINANCIAL RESULTS

Operating Summary	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% change	2015	2014	% change
Canadian Operations						
Revenue per drilling day (i)	\$ 23.91	\$ 28.58	(16)%	\$ 26.68	\$ 29.07	(8)%
Drilling Days (i)	745	900	(17)%	2,063	2,966	(30)%
Services Revenue	\$ 17,813	\$ 25,718	(31)%	\$ 55,041	\$ 86,218	(36)%
Utilization (i)	29%	36%	(19)%	40%	57%	(30)%
Industry Average Utilization (ii)	13%	26%	(50)%	25%	43%	(42)%
Multiple of Industry Average Utilization	2.23	1.38	62 %	1.60	1.33	20 %
US Operations						
Revenue per drilling day (i)	\$ 28.03	\$ 29.49	(5)%	\$ 28.25	\$ 29.03	(3)%
Drilling Days (i)	598	1,227	(51)%	1,621	2,509	(35)%
Industry Average Rig Count (iii)	907	1,852	(51)%	1,155	1,816	(36)%
Services Revenue	\$ 16,754	\$ 36,186	(54)%	\$ 45,778	\$ 72,825	(37)%
Utilization (i)	31%	75%	(59)%	43%	79%	(46)%
Total Drilling Services						
Revenue per drilling day (i)	\$ 25.74	\$ 29.10	(12)%	\$ 27.37	\$ 29.05	(6)%
Other direct expenses per day (i)	\$ 16.09	\$ 18.48	(13)%	\$ 17.24	\$ 17.89	(4)%
Drilling Days (i)	1,343	2,127	(37)%	3,684	5,475	(33)%
Utilization (i)	30%	51%	(41)%	41%	66%	(38)%
Financial Summary						
Services revenue	\$ 34,567	\$ 61,904	(44)%	\$ 100,819	\$ 159,043	(37)%
Gross Margin (i)	\$ 12,957	\$ 22,600	(43)%	\$ 37,311	\$ 61,083	(39)%
Gross Margin %	37%	37%	— %	37%	38%	(3)%
Adjusted EBITDA (i)	\$ 8,445	\$ 16,316	(48)%	\$ 26,825	\$ 48,077	(44)%
Adjusted EBITDA Margin %	24%	26%	(8)%	27%	30%	(10)%
G&A as a percentage of services revenue (i)	13%	10%	30 %	10%	8%	25 %
Depreciation expense per operating day	\$ 3.87	\$ 2.66	46 %	\$ 3.57	\$ 2.67	34 %
Funds flow (i)	\$ 8,275	\$ 19,060	(57)%	\$ 27,283	\$ 45,096	(40)%
Joint Venture Adjusted EBITDA	\$ (81)	\$ 2,661	(103)%	\$ (530)	\$ 5,615	(109)%
Share of joint venture profits (losses)	\$ (326)	\$ 596	(155)%	\$ (904)	\$ 2,249	(140)%
Income/(loss) attributable to shareholders of the Corporation	\$ (1,748)	\$ 5,536	(132)%	\$ 3,659	\$ 20,638	(82)%
Income/(loss) per share (diluted)	\$ (0.02)	\$ 0.06	(133)%	\$ 0.04	\$ 0.22	(82)%
Weighted average number of diluted shares outstanding	93,029	93,898	(1)%	93,015	93,812	(1)%
Common shares outstanding	93,166	92,519	1 %	93,166	92,519	1 %
Dividends declared per common share	\$ 0.03	\$ 0.06	(50)%	\$ 0.06	\$ 0.12	(50)%

i. See *Non-GAAP Measures and Industry Definitions*

ii. Source: Canadian industry average utilization is provided by the CAODC (<http://www.caodc.ca/rig-counts>)

iii. Source: US industry average rig count is provided by Baker Hughes (<http://www.bakerhughes.com/rig-count>)

SIGNIFICANT EVENT

On June 10, 2015, Trinidad Drilling Ltd. ("Trinidad") and the Corporation entered into a definitive agreement under which Trinidad will acquire all the issued and outstanding common shares of the Corporation in exchange for a combination of cash and Trinidad common shares (the "Trinidad Shares"). The Corporation's shareholders will, for each share held, have the option to receive, subject to an aggregate maximum cash payment by Trinidad of \$50.0 million, 1.0631 Trinidad Shares or \$4.90 per share in cash. The transaction has been approved unanimously by the Corporation's Board of Directors. The transaction will be implemented through a Plan of Arrangement under the Business Corporations Act (Alberta) and is subject to the receipt of approval of the Corporation's securityholders, Trinidad's shareholders, TSX, court approval, relevant regulatory approvals and the satisfaction of other closing conditions. The transaction is expected to close August 10, 2015. All regulatory approvals, aside from court approval, for the transaction have been received.

SECOND QUARTER 2015 SUMMARY (compared with a year earlier)

- Services revenue of \$34.6 million, down 44% from \$61.9 million
- Adjusted EBITDA of \$8.4 million, down 48% from \$16.3 million, excluding an Adjusted EBITDA loss from our joint venture equity investment in Diavaz CanElson de Mexico ("DCM") of \$(0.1) million (2014: DCM Adjusted EBITDA of \$2.7 million)
- Income/(loss) attributable to shareholders of the Corporation \$(1.7) million, down 132% from \$5.5 million
- Income/(loss) per diluted share of \$(0.02), down 133% from \$0.06
- Included in Income/(loss) attributable to shareholders is \$3.8 million in non-cash asset impairment related to CanGas, a non-material subsidiary, up from nil
- Weighted average diluted common shares outstanding 93.0 million, down 1% from 93.9 million
- Declared second quarter dividend of \$0.03 per share on July 27, 2015, down 50% from \$0.06 per share
- Canadian utilization of 29% (2.23 times above industry average), down 19% from 36% (1.38 times above industry average)
- US utilization of 31%, down 59% from 75%

SIX MONTHS ENDED 2015 SUMMARY (compared with a year earlier)

- Services revenue of \$100.8 million, down 37% from \$159.0 million
- Adjusted EBITDA of \$26.8 million, down 44% from \$48.1 million, excluding an Adjusted EBITDA loss from our joint venture equity investment in Diavaz CanElson de Mexico ("DCM") of \$0.5 million (2014: DCM Adjusted EBITDA of \$5.6 million)
- Income attributable to shareholders of the Corporation \$3.7 million, down 82% from \$20.6 million
- Income/(loss) per diluted share of \$0.04, down 82% from \$0.22
- Included in Income/(loss) attributable to shareholders is \$3.8 million in non-cash asset impairment related to CanGas, a non-material subsidiary, up from nil
- Weighted average diluted common shares outstanding 93.0 million, down 1% from 93.8
- Declared dividends for the six months ended June 30, of \$0.06 per share, down 50% from \$0.12 per share
- Canadian utilization of 40% (1.6 times above industry average), down 30% from 57% (1.3 times above industry average)
- US utilization of 31%, down 59% from 75%

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, 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").

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:

- In Canada, CanElson has three partnerships with First Nations organizations, which each own and operate one drilling rig as follows:
 - 50% owned, CanElson 120601 Drilling Limited Partnership #1 ("LP #1");
 - 54.4% owned, CanElson 120601 Drilling Limited Partnership #2 ("LP #2"); and
 - 50% owned, CanElson 120601 Drilling Limited Partnership #3 ("LP #3").
- 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.
- 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 June 30, 2015	15 (net 15)	13 (net 11.5)	15 (net 13.5)	6 (net 6)	2 (net 1)	2 (net 1)	53 (net 48)
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)
Change %	Unchanged	Unchanged	7%	Unchanged	Unchanged	Unchanged	2%

Gross fleet deployment (by %)

	Alberta /BC	Saskatchewan /Manitoba	Texas	North Dakota	Mexico Drilling	Mexico Service	Total
At June 30, 2015	28%	25%	28%	11%	4%	4%	100%
At December 31, 2014	29%	25%	27%	11%	4%	4%	100%

2015 rig deployment activity

In Canada, CanElson deployed one newly constructed wholly owned AC electric tele-double drilling rig to north east British Columbia in the first quarter of 2015. In the US, Rig #103, an AC electric triple drilling rig, is currently located in Texas. While the rig is idle, it is actively being marketed to customers in the Permian Basin. In the second quarter of 2015, CanElson removed Rig #51, a single drilling rig, from its marketed fleet.

Drilling rig fleet specifications

CanElson's drilling rig fleet comprises 43 (net 39) tele-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, and 5 triple drilling rigs rated between 5,000 meters and 6,300 meters true vertical depth. The Corporation's rig fleet has an average age of 5.7 years, average vertical depth rating of greater than 4,000 metres, and 98% 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 rich resource wells in North America's most active basins. At the date of this MD&A, 43% (2014: 98%) of the drilling rig fleet was committed to customers. Additionally, 12% (2014: 40%) of the drilling rig fleet has long-term contracts with an average term greater than one year.

We offer drilling rig contracts based on dayrates, 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 dayrate contracts. As at June 30, 2015, there were no drilling rigs operating under performance contracts (2014: 16%), as our customers now have additional internal engineering personnel capacity, 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 that 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 June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Services revenue	\$ 1,101	\$ 2,082	(47)%	\$ 3,809	\$ 5,342	(29)%
Gross margin	(18)	715	(103)%	525	1,986	(74)%
Adjusted EBITDA	(319)	151	(311)%	(319)	728	(144)%

Revenue, gross margin, and Adjusted EBITDA decreased for the three and six month periods ended June 30, 2015 relative to the prior year, due to decreased demand from third party customers as a result of overall commodity price weakness. As the CanGas results are not yet material to the overall Corporation's results, they are included within the Drilling Services Division financial results and no additional financial analysis is presented within this MD&A.

OUTLOOK

Drilling Services

CanElson expects the transaction involving the Corporation and Trinidad Drilling Ltd. to close after the shareholders vote being held on August 10, 2015. With respect to CanElson's operations, there have been no significant changes to the outlook, relative to the outlook published in the first quarter 2015 MD&A dated May 13, 2015. CanElson's second quarter results highlight that its rig fleet remains in demand on a relative basis, despite a significant reduction in overall industry drilling activity, with Canadian utilization of 29%, well above the industry average of 13%. We credit our outperformance to our alignment with a portfolio of customers that understand CanElson's value proposition.

At the date of this MD&A, CanElson had 10 active drilling rigs in Alberta and British Columbia (July 31, 2014: 13 drilling rigs), 5 active drilling rigs in Saskatchewan and Manitoba (July 31, 2014: 9 drilling rigs), no active drilling rigs in North Dakota (July 31, 2014: 6 drilling rigs), 6 active drilling rigs in Texas (July 31, 2014: 13 drilling rigs), and no active drilling rigs in Mexico (July 31, 2014: 1 drilling rig).

Capital Availability and Capital Program

Funds flow continues to support our quarterly dividend rate of \$0.03 per share and the 2015 capital program.

2015 Capital Program

CanElson's 2015 capital program features select investments in drilling rig upgrades based on customer requests, as well as recurring maintenance and spare equipment. A portion of the Upgrades & Expansion capital spent in the first six months of the year includes spending associated with three drilling rigs which were ultimately deferred due to the current commodity price environment. The \$2.6 million increase in capital spending relates to recertification costs, upgrades, and long lead-time items. A review of CanElson's current anticipated 2015 capital investment program is as follows (in millions):

Drilling Services						
Capital Expenditures	Spare equipment facility & overhead	Maintenance	Upgrades & Expansion	CanGas	Total	
Capital expenditures for the six months ended June 30, 2015	\$ 2.4	\$ 4.4	\$ 9.4	\$ 0.4	\$ 16.6	
Anticipated cost to complete 2015 capital expenditures	2.4	1.5	0.8	1.3	6.0	
Total expected 2015 capital expenditures	\$ 4.8	\$ 5.9	\$ 10.2	\$ 1.7	\$ 22.6	
Previously anticipated 2015 capital expenditures (i)	\$ 4.8	\$ 4.2	\$ 9.3	\$ 1.7	\$ 20.0	
Increase from previously anticipated 2015 capital expenditures	\$ —	\$ 1.7	\$ 0.9	\$ —	\$ 2.6	

i. See our MD&A dated May 13, 2015.

FINANCIAL SUMMARY

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% change	2015	2014	% change
Services revenue	\$ 34,567	\$ 61,904	(44)%	\$ 100,819	\$ 159,043	(37)%
Adjusted EBITDA	\$ 8,445	\$ 16,316	(48)%	\$ 26,825	\$ 48,077	(44)%
Share of joint venture profits (losses)	\$ (326)	\$ 596	(155)%	\$ (904)	\$ 2,249	(140)%
Income/(loss) attributable to shareholders of the Corporation	\$ (1,748)	\$ 5,536	(132)%	\$ 3,659	\$ 20,638	(82)%
Income/(loss) per share						
Basic	\$ (0.02)	\$ 0.06	(133)%	\$ 0.04	\$ 0.22	(82)%
Diluted	\$ (0.02)	\$ 0.06	(133)%	\$ 0.04	\$ 0.22	(82)%
Cash dividends per share	\$ 0.03	\$ 0.06	(50)%	\$ 0.06	\$ 0.12	(50)%
Funds flow	\$ 8,275	\$ 19,060	(57)%	\$ 27,283	\$ 45,096	(40)%
Gross margin	\$ 12,957	\$ 22,600	(43)%	\$ 37,311	\$ 61,083	(39)%
Weighted Average diluted shares outstanding	93,029	93,898	(1)%	93,015	93,812	(1)%

As at June 30 and December 31,	2015	2014	% Change
Current assets	\$ 33,224	\$ 70,369	(53)%
Total assets	588,281	614,359	(4)%
Trade payables, accrued liabilities and current taxes payable	12,327	28,059	(56)%
Current deferred revenue	297	406	(27)%
Current portion of loans and borrowings	3,045	4,885	(38)%
Current liabilities	15,669	33,350	(53)%
Non-current deferred revenue	769	902	(15)%
Non-current portion of loans and borrowings	22,500	46,848	(52)%
Total non-current liabilities	106,160	123,419	(14)%
Equity attributable to shareholders of the Corporation	444,989	434,773	2 %

Three and six months ended June 30, 2015 compared with 2014

Crude oil, natural gas liquids, and natural gas pricing levels were all considerably lower in the three and six months ended June 30, 2015, when compared to the prior year periods. These changes in industry conditions have significantly impacted our business. A comparison of several key financial metrics is provided below.

For the three and six months ended June 30, 2015, relative to the comparative periods:

- drilling days were down by 37% and 33%
- average revenue per drilling day was down 12% and 6%
- operating expenses decreased by 13% and 4% on a per drilling day basis
- G&A as a percentage of revenue increased by 30% (from 10% to 13%) and 25% (from 8% to 10%)

Adjusted EBITDA for the three and six months ended June 30, 2015, decreased by 48% and 44%. Income/(loss) per share was additionally impacted by a \$3.8 million impairment charge and, as a result, decreased by 133% and 82% relative to the comparative periods.

Rig Fleet Changes

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

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% change	2015	2014	% change
Average number of available drilling rigs (gross)	51.0	48.7	5%	51.5	47.8	8%
Average number of available drilling rigs (net)	48.0	45.7	5%	48.5	44.8	8%

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 June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Drilling rigs						
Opening balance	29	29	— %	28	29	(3)%
Constructed and deployed	—	—	— %	1	1	— %
Deactivated	(1)	—	100 %	(1)	(1)	— %
Re-deployed to US	—	(1)	(100)%	—	(1)	(100)%
Ending balance (i)	28	28	— %	28	28	— %
Drilling days	745	900	(17)%	2063	2966	(30)%
Utilization	29%	36%	(19)%	40%	57%	(30)%
Horizontal wells %	100%	98%	2 %	100%	91%	10 %

i. Ending balance of drilling rigs in the Canadian operating segment for 2015 includes 3 (net: 1.5) drilling rigs associated with 3 partnerships in south-east Saskatchewan.

CanElson deployed an AC electric tele-double to British Columbia in the first quarter of 2015 under a long-term contract and deactivated a single drilling rig in the second quarter of 2015. Twenty-six of the 28 drilling rigs in CanElson's Canadian rig fleet were tele-doubles substantially focused on drilling horizontal wells to measured depths up to 6,300 meters. The two remaining drilling rigs are AC electric 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 and six months ended June 30, 2015, CanElson achieved a utilization level of 29% and 40% which are below the comparative period utilization levels of 36% and 57%, with activity levels decreasing materially as a result of low commodity prices. However, utilization levels in the second quarter and six months ended 2015 exceeded the average industry utilization by 2.23 times (2014: 1.38 times) and 1.60 times (2014: 1.33 times) respectively (*source: CAODC*).

US Segment

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Drilling rigs						
Opening balance	21	17	24 %	20	17	18 %
Constructed and deployed	—	1	100 %	1	1	— %
Redeployed from Canada	—	1	— %	—	1	(100)%
Ending balance (i)	21	19	11 %	21	19	11 %
Drilling days	598	1,227	(51)%	1,621	2,509	(35)%
Utilization	31%	75%	(59)%	43%	79%	(46)%

i. Ending balance of drilling rigs in the US operating segment for 2015 includes 3 (net: 1.5) associated with a partnership in Texas.

In the first quarter, CanElson added Rig #103, an AC electric triple drilling rig, to its fleet. This rig was previously contracted long-term. However, this contract was migrated to an existing drilling rig in CanElson's fleet. While Rig #103 has not yet been deployed, it is actively being marketed to existing and potential new customers in the Permian Basin. The US segment operates in two of the most active basins with 15 rigs in the Permian Basin and 6 rigs in the Williston Basin (North Dakota Bakken and Montana). For the three and six months ended June 30, 2015, CanElson achieved drilling days of 598 and 1,621, down 51% and 35% respectively from the comparative period. The declines are consistent with the overall industry decline in active rigs of 51% and 36% respectively (*source: Baker Hughes*).

Revenue and Operating Expenses

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Services revenue						
Canada	\$ 17,813	25,718	(31)%	\$ 55,041	86,218	(36)%
US	16,754	36,186	(54)%	45,778	72,825	(37)%
	34,567	61,904	(44)%	100,819	159,043	(37)%
Other direct operating expenses	21,610	39,304	(45)%	63,508	97,960	(35)%
Gross margin	\$ 12,957	22,600	(43)%	\$ 37,311	61,083	(39)%
Gross margin %	37%	37%		37%	38%	
Administration expenses	4,512	6,284	(28)%	10,486	13,006	(19)%
Adjusted EBITDA	8,445	16,316	(48)%	26,825	48,077	(44)%
Adjusted EBITDA %	24%	26%	(8)%	27%	30%	(10)%
Drilling days (spud to rig release)	1,343	2,127	(37)%	3,684	5,475	(33)%
Revenue per drilling day (Canada)	23.91	28.58	(16)%	26.68	29.07	(8)%
Revenue per drilling day (US)	28.03	29.49	(5)%	28.25	29.03	(3)%
Direct operating expenses per day	16.09	18.48	(13)%	17.24	17.89	(4)%

Canadian Segment

Revenue for the three and six months ended June 30, 2015 decreased by 31% and 36% when compared to the prior year, as a result of 17% and 30% reductions in drilling days and 16% and 8% reductions in revenue per drilling day, respectively.

US Segment

Revenue in the US segment for the three and six months ended June 30, 2015 decreased by 54% and 37% relative to the comparative period, primarily due to 51% and 35% decreases in drilling days. While the strength of the US dollar compared to the Canadian dollar mitigated the impact of reduced revenue on a per-drilling-day basis, pricing levels in US dollars are down for daywork contracts. Additionally, CanElson revised its contracts from performance-based contracts to daywork contracts during the first quarter, which also had a negative impact on revenue per drilling day.

Combined Geographic Segment Analysis

Approximately 48% (2014: 58%) of CanElson's revenue in the period was earned in US dollars. The period-over-period increase in the US dollar relative to the Canadian dollar had a significant impact on items that affect Adjusted EBITDA. For the three and six months ended June 30, 2015, the period-over-period reduction in gross margin percentage were the combination of lower average base rig rates and increases in labour costs. This was partially offset by the suspension of performance based operations toward the end of the first quarter, which typically have both higher revenue and operating costs on a per day basis, as CanElson is responsible for numerous expenses that are typically the responsibility of the operator when operating under a daywork contract. G&A as a percentage of revenue in the first quarter of 2015 was higher year-over-year, contributing to decreases in Adjusted EBITDA for the three and six months ended June 30, 2015 of 48% and 44% to \$8.4 million and \$26.8 million, respectively.

Joint Venture (DCM)

The Corporation conducts its operations in Mexico through 50% owned DCM, a Mexican joint venture company that is jointly controlled. As at June 30, 2015, the total non-cash current assets were \$20.5 million (June 30, 2014: \$40.0 million), including \$18.4 million of accounts receivable (June 30, 2014: \$37.1 million). Subsequent to the end of the second quarter, DCM collected \$3.0 million in accounts receivable. There has been no change to our expectation that accounts receivable are fully collectible. In Q2 2015, DCM operated 1 service rig and no drilling rigs, due to the uncertainty arising from low commodity prices and migration to the new energy reform program being implemented by the Mexican government.

At and for the three months ended June 30,	At and for the three months ended June 30,		At and for the six months ended June 30,		At December 31, 2014
	2015	2014	2015	2014	
Cash & cash equivalents	\$ 4,086	\$ 51	\$ 4,086	\$ 51	\$ 1,348
Non-cash current assets	20,474	39,995	20,474	39,995	33,980
Current liabilities	12,398	21,929	12,398	21,929	22,882
	12,162	18,117	12,162	18,117	12,446
Non-current assets	16,226	17,520	16,226	17,520	20,342
Non-current liabilities	11,492	16,785	11,492	16,785	14,170
	4,734	735	4,734	735	6,172
Net assets	\$ 16,896	\$ 18,852	\$ 16,896	\$ 18,852	\$ 18,618
Corporation's share of unconsolidated joint venture net assets	\$ 8,448	\$ 9,426	\$ 8,448	\$ 9,426	\$ 9,309
Total revenue	\$ 2,114	\$ 11,791	\$ 4,808	\$ 26,929	
Total profit (loss) for the period	(652)	1,191	(1,808)	4,497	
Total depreciation for the period	932	1,000	1,880	1,550	
Total foreign exchange loss (gain)	(584)	266	(994)	262	
Total interest expense	338	2,441	670	3,003	
Total income tax expense (recovery)	(196)	424	(808)	1,918	
Corporation's share of profits of unconsolidated joint venture	(326)	596	(904)	2,249	
Corporation's share of other comprehensive income (loss)	(456)	(190)	43	115	
Corporation's share of total comprehensive income	(782)	406	(861)	2,364	

ADMINISTRATION EXPENSES

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Administration expenses	\$ 4,512	\$ 6,284	(28)%	\$ 10,486	\$ 13,006	(19)%
Percent of services revenue	13%	10%	30 %	10%	8%	25 %

Administration expense ("G&A") for the three and six months ended June 30, 2015 decreased by 28% and 19% from the comparative periods. Numerous rationalization measures have been implemented in response to declining activity levels, with the impact of these changes substantially taking effect in the second quarter, mitigating the effect on the year-to-date results. As a percentage of revenue, G&A is higher in the three and six months ended June 30, 2015, when compared to the prior year periods, highlighting the predominantly fixed nature of this expense.

DEPRECIATION

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Depreciation expense	\$ 5,201	\$ 5,649	(8)%	\$ 13,167	\$ 14,639	(10)%
Depreciation expense per operating day	3.87	2.66	46 %	3.57	2.67	34 %

Substantially all property and equipment is depreciated based on drilling days. While overall depreciation expense decreased by 8% and 10% when compared to the prior year three and six month periods ended June 30, respectively, per-operating-day depreciation expense increased by 46% and 34%, respectively as a result of rig mix, with higher-capital-cost active rigs operating in the three and six months ended June 30, 2015.

STOCK-BASED COMPENSATION

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2014	2014	% Change
Cost of sales	\$ 214	\$ 200	7 %	\$ 402	\$ 398	1 %
Expenses	297	355	(16)%	436	722	(40)%
Stock based compensation	\$ 511	\$ 555	(8)%	\$ 838	\$ 1,120	(25)%

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. Due to timing of stock option grants, stock-based compensation was lower for the three and six months ended June 30, 2015 relative to the comparative periods.

On June 10, 2015, the Board of Directors approved a resolution that all unvested options be conditionally fully vested in accordance with the terms of applicable option agreements, solely for purposes of completing the transaction with Trinidad. The options become conditionally fully vested at such time as determined by the President and Chief Executive Officer and the Chief Financial Officer (such officers determined that such time would be July 7, 2015). In the event the transaction does not close, the acceleration of the vesting of options shall be deemed not to have occurred and shall have no effect.

INTEREST EXPENSE

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Interest expense	\$ 119	\$ 108	10%	\$ 650	\$ 304	114%

CanElson incurs interest expense on its loans and borrowings. Interest expense for the three and six months ended June 30, 2015 increased as a result of capitalizing only \$0.3 million and \$0.4 million, lower than the \$0.5 million and \$1.0 million capitalized in the comparative periods of the prior year, due to reduced rig build activity. This was partially offset by a reduction to overall corporate debt levels. At June 30, 2015, the Corporation had a \$25.5 million loans and borrowings balance, compared to \$45.7 million at June 30, 2014.

INCOME TAX EXPENSE

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Current	\$ (43)	\$ (1,910)	(98)%	\$ (703)	\$ 2,403	(129)%
Future	223	6,003	(96)%	3,655	7,799	(53)%
Income tax expense	\$ 180	\$ 4,093	(96)%	\$ 2,952	\$ 10,202	(71)%
Effective tax rate to the shareholders of the Corporation	nm	43%		45%	33%	

nm - the calculation is not meaningful

The Corporation's income tax expense is affected by tax rates in Canada and the US. For the three and six months ended June 30, 2015, income tax expense was lower, commensurate with lower income before income tax. The shareholders of the corporation are in a taxable position for the three months ended June 30, 2015, despite negative income before income tax, as a result of the substantively enacted new tax rate in Alberta.

NON-CONTROLLING INTEREST

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Non-controlling interest	\$ 21,463	\$ 25,826	(17)%	\$ 21,463	\$ 25,826	(17)%
Income attributable to non-controlling interest	70	1,535	(95)%	916	3,059	(70)%

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 June 30, 2015, these entities had 6 drilling rigs available for operation (2014: 6). At June 30, 2015, non-controlling interest was 17% below the prior year period as distributions exceeded income over the past twelve months. Income attributable to the non-controlling interest were 95% and 70% below the comparative periods, and are consistent with the decline in overall net income, after normalizing for the impact of the changes in the Corporation's share of joint venture profits.

IMPAIRMENT OF ASSETS

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Impairment of Assets	\$ 3,834	\$ —	100%	\$ 3,834	\$ —	100%

During 2015, the Corporation incurred a \$3,783 loss on the impairment of rental equipment, within the CanGas CGU, which is recognized in the statement of comprehensive income within the loss on disposal and impairment of assets. The assets were impaired due to the inefficient nature of the assets and the high cost to maintain. The Corporation's recoverable amount of \$15,130, was determined by using the value in use method, which utilizes a five year cash flow projection based on the Corporation current forecasts and ensuring four years. The Corporation considered projected strip commodity prices in preparing its impairment analysis and factored a 29% decline in revenue for the CGU, when compared to 2014. Revenue for the CGU is not projected to return to 2014 levels in the five year analysis.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Relating to Operating Activities and Working Capital

	For the six months ended June 30,		
	2015	2014	% Change
Funds flow	\$ 27,283	\$ 45,096	(40)%
Current tax (expense)/recovery	(703)	2,403	nm
Changes in non-cash working capital balances	28,942	10,290	181 %
Operating cash flow	\$ 55,522	\$ 57,789	(4)%

nm - the calculation is not meaningful

The Corporation generates and uses cash flows largely from the operation of drilling rigs. During the six months ended June 30, 2015, operating cash flow decreased by 4% relative to the comparable period despite 40% lower funds flow, due to changes in non-cash working capital arising from significant collections of accounts receivable balances.

At June 30, 2015 CanElson had an overall positive net working capital balance (current assets less current liabilities, excluding cash and loans and borrowings) of \$14.5 million, which is below the net working capital balance of \$38.5 million at December 31, 2014.

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 and requirements for working capital. Activity in Texas does not feature the same seasonality.

Cash Flows Relating to Financing Activities

	For the six months ended June 30,		
	2015	2014	% Change
Increase in loans and borrowings	\$ —	\$ 18,542	(100)%
Repayment of loans and borrowings	(26,340)	(14,772)	78 %
Interest paid	(650)	(304)	114 %
Distributions paid to minority interest holders	(2,795)	—	(100)%
Dividends paid to common shareholders	(5,580)	(11,078)	(50)%
Issue of share capital (net of costs)	749	2,599	(71)%
Financing cash flow	\$ (34,616)	\$ (5,013)	591 %

During the six months ended June 30, 2015, net loans and borrowings decreased by \$26.3 million, CanElson reduced its capital spending plans in January 2015 and, combined with non-cash working capital balance reductions, this generated funds to make significant debt repayments in the second quarter.

At June 30, 2015, CanElson had 93.2 million common shares and 6.1 million options outstanding with a weighted average exercise price of \$5.29 per option exercisable into one common share. At the date of this MD&A, CanElson had 93.2 million common shares and 6.0 million options outstanding, each exercisable into one common share.

The Corporation's Loan Facilities

As at June 30, 2015 and December 31, 2014, CanElson had the following loans and borrowings facilities available and outstanding:

As at June 30 and December 31,	Available Amount		Outstanding Balance		Interest rate per annum	Maturity date
	2015	2014	2015	2014		
The Corporation's Facilities						
Operating loan	\$ 10,000	\$ 10,000	\$ —	\$ 1,432	(i)	due on demand
Revolving loan	110,000	110,000	22,500	47,000	(i)	(ii)
	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 22,500</u>	<u>\$ 48,432</u>		
CanElson 120601 Drilling Limited Partnership #1 Facilities ("LP#1")						
Operating loan (iii)	\$ 396	\$ 502	\$ —	\$ —	(iv)	due on demand
Non-revolving loan	766	900	766	900	(v)	(vi)
	<u>\$ 1,162</u>	<u>\$ 1,402</u>	<u>\$ 766</u>	<u>\$ 900</u>		
CanElson 120601 Drilling Limited Partnership #3 Facilities ("LP#3")						
Operating loan (vii)	\$ —	\$ 252	\$ —	\$ —	(viii)	due on demand
Non-revolving loan	2,279	2,553	2,279	2,553	(ix)	(x)
	<u>\$ 2,279</u>	<u>\$ 2,805</u>	<u>\$ 2,279</u>	<u>\$ 2,553</u>		
Total	<u>\$ 123,441</u>	<u>\$ 124,207</u>	<u>\$ 25,545</u>	<u>\$ 51,885</u>		
Less: net unamortized debt issue costs				152		
Less: current portion			3,045	4,885		
Total long-term debt			<u>\$ 22,500</u>	<u>\$ 46,848</u>		

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 2015. 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.

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) The available amount is the lesser of \$1.0 million 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) The available amount is the lesser of \$1.0 million 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 June 30, 2015 and December 31, 2014. A description of the covenants on the Corporation's, LP#1 and LP#3 facilities is included in the June 30, 2015 condensed Consolidated Financial Statements.

Cash Flows Relating to Investing Activities

	For the six months ended June 30,		
	2015	2014	% Change
Purchase of property & equipment	\$ (16,239)	\$ (53,896)	(70)%
Proceeds on disposition of property and equipment	794	1,746	(55)%
Interest capitalized on rig construction	(366)	(1,025)	nm
Changes in non-cash working capital balances	(2,171)	4,447	nm
Investing cash flow	\$ (17,982)	\$ (48,728)	(63)%

nm - the calculation is not meaningful

At June 30, 2015, CanElson was committed 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 periods ended June 30, 2015 and 2014, CanElson used cash flows from operating and financing activities 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 June 30, 2015	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Loans and borrowings	\$ 25,545	\$ 3,045	\$ 22,500	\$ —	\$ —
Operating leases	4,069	1,016	1,347	1,018	688
Total Contractual Obligations	\$ 29,614	\$ 4,061	\$ 23,847	\$ 1,018	\$ 688

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

	2015		2014		2013			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Services revenue	\$ 34,567	\$ 66,252	\$ 90,553	\$ 89,933	\$ 61,904	\$ 97,139	\$ 81,073	\$ 66,155
Adjusted EBITDA	8,445	18,380	29,343	27,711	16,316	31,761	26,200	23,060
Net income attributable to shareholders of the Corporation	(1,748)	5,407	10,846	11,102	5,536	15,102	10,586	9,767
Income/(loss) per share (diluted)	(0.02)	0.06	0.12	0.12	0.06	0.16	0.12	0.12
Funds flow	8,275	19,008	33,717	24,493	19,060	26,036	20,981	20,010
Current assets	33,224	57,213	70,369	72,739	62,166	84,986	82,219	65,268
Total assets	588,281	620,436	614,359	598,440	570,068	579,215	576,829	466,021
Trade payables and accrued liabilities	12,327	14,738	28,059	29,859	24,321	33,591	26,720	23,196
Deferred revenue	1,066	929	1,308	1,301	1,606	2,196	2,196	3,857
Current portion of loans and borrowings	3,045	3,235	4,885	7,607	15,933	9,910	17,163	7,279
Long term loans and borrowings	22,500	44,908	46,848	46,788	29,728	37,668	24,608	24,549
Equity attributable to shareholders of the Corporation	444,989	453,769	434,773	421,442	408,263	411,328	395,746	332,563
Weighted average number of diluted common shares	93,029	92,975	93,070	93,299	93,898	93,195	90,376	84,197

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 64% 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. Second quarter 2015 results were down sequentially and year-over-year as a result of a significant reduction in commodity prices combined with typical seasonal slowdowns.

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

	2015		2014				2013	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Profit/(loss) for the period	\$ (652)	\$ (1,156)	\$ (386)	\$ 1,250	\$ 1,191	\$ 3,306	\$ 1,352	\$ 1,172
Interest expense for the period	338	332	358	(1,800)	2,441	562	204	180
Income tax expense for the period	(196)	(612)	(150)	552	424	1,494	576	904
Depreciation for the period	932	948	982	1,058	1,000	550	846	158
Joint ventures EBITDA for the period	422	(488)	804	1,060	5,056	5,912	2,978	2,414
Foreign exchange loss (gain) for the period	(584)	(410)	(1,958)	(1,010)	266	(4)	152	(98)
Joint ventures Adjusted EBITDA for the period	(162)	(898)	(1,154)	50	5,322	5,908	3,130	2,316
Corporation's share of the joint ventures Adjusted EBITDA for the period	\$ (81)	\$ (449)	\$ (577)	\$ 25	\$ 2,661	\$ 2,954	\$ 1,565	\$ 1,158

Activity levels in Mexico are rarely impacted by seasonality and variations in activity levels are primarily a function of our customers' well programs. The primary reason for the decrease in DCM profit in Q4 2014 and the first half of 2015, relative to the remainder of 2014, is a significant reduction in activity levels.

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 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 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 for information on additional critical accounting estimates applicable to *Investment in Joint Venture*.

Newly Adopted Standards

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 that will improve comparability, and simplify the preparation of the financial statements. IFRS 15 is effective for annual periods beginning on or after January 2018.

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.

RISKS AND UNCERTAINTIES

A summary of certain risk factors relating to CanElson's business is 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". For risk factors specific to the definitive agreement between CanElson and Trinidad Drilling Ltd., see the Joint Management Information Circular dated June 29, 2015, which is filed on SEDAR. 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 June 30, 2015 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 \$25.5 million of loans and borrowings would increase or decrease net and comprehensive income by \$0.3 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 June 30, 2015 and December 31, 2014 is as follows:

As at June 30 and December 31	2015	2014
Cash	\$ 3,596	\$ 1,372
Non-cash current financial assets	6,907	23,664
Non-cash current financial liabilities	(1,454)	(9,286)
Net US dollar exposure	\$ 9,049	\$ 15,750
Effect of plus (minus) 10% change in the US dollar to Canadian dollar exchange rate on income before tax	\$ 905	\$ 1,575

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 June 30, 2015, the balance in OCI represents an \$11.0 million gain (June 30, 2014: \$1.3 million loss). The increase in OCI relative to December 31, 2014 resulted primarily from the depreciation of the Canadian dollar relative to the US dollar and an increase in net assets. The US operations functional currency is US dollars.

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 further material negative change in demand for oil and gas energy services occurred in North America.

Valuation Risk

CanElson's valuation of its \$8.4 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 affected by the accounting standards associated with CanElson's stock based compensation plan. For the calculation of DCM Adjusted EBITDA, see *Summary of Selected Quarterly Results for the Joint Venture (DCM)*.

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% change	2015	2014	% change
Net Income/(loss)	\$ (1,678)	\$ 7,071	(124)%	\$ 4,575	\$ 23,697	(81)%
Interest expense	119	108	10 %	650	304	114 %
Current and deferred taxes	180	4,093	(96)%	2,952	10,202	(71)%
Depreciation expense	5,201	5,649	(8)%	13,167	14,639	(10)%
EBITDA	3,822	16,921	(77)%	21,344	48,842	(56)%
Stock based compensation expense	511	555	(8)%	838	1,120	(25)%
Share of profit (loss) joint venture	326	(596)	(155)%	904	(2,249)	(140)%
Loss on disposal and decommissioning of assets	3,834	—	100 %	3,834	—	100 %
Foreign exchange (recovery) losses	(48)	(564)	(91)%	(95)	364	(126)%
Adjusted EBITDA	\$ 8,445	\$ 16,316	(48)%	\$ 26,825	\$ 48,077	23 %

Funds flow from operations is defined as cash provided by operating activities before changes in non-cash working capital and current tax expense. 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 financing payments. Management utilizes this measurement to assess CanElson's ability to finance operating activities and capital expenditures. Comparative period presentation of funds flow has been adjusted to conform with the current year presentation of funds flow, that is net of current income tax expense, whereas it was previously net of income taxes paid.

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% change	2015	2014	% change
Operating cash flow	\$ 27,707	\$ 41,045	(32)%	\$ 55,522	\$ 57,789	(4)%
Current tax (expense)/recovery	43	1,910	(98)%	703	(2,403)	(129)%
Changes in working capital	(19,475)	(23,895)	(18)%	(28,942)	(10,290)	181 %
Funds flow	\$ 8,275	\$ 19,060	(57)%	\$ 27,283	\$ 45,096	(40)%

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 cash generating performance from operations. Management utilizes this measurement to assess CanElson's operating performance.

	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	% change	2015	2014	% change
Gross profit	\$ 7,542	\$ 16,751	(55)%	\$ 23,742	\$ 46,046	(48)%
Depreciation expense	5,201	5,649	(8)%	13,167	14,639	(10)%
Stock based compensation expense	214	200	7 %	402	398	1 %
Gross margin	\$ 12,957	\$ 22,600	(43)%	\$ 37,311	\$ 61,083	(39)%

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.

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. These industry definitions may not be comparable to similar measures used by other companies.

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 Alternating Current ("AC") electric, which refers to the method by which the hoisting and pumping equipment are powered.

Spring break-up is a period when local governments typically restrict movements of heavy equipment on roads susceptible to damage during seasonally wet conditions.

References to commodity prices within the MD&A refer to the prices of crude oil, natural gas, as well as natural gas liquids such as condensate, butane, propane, and ethane.

Drilling days refers to the time it takes for a drilling rig to drill a well from spud to rig release. The time taken to mobilize, move in, rig up, and remove the drilling rig from a wellsite is excluded from this metric, even though revenue is often earned and costs are incurred during these non-operating intervals.

CanElson presents its utilization levels on a drilling day basis, and sources Canadian industry utilization statistics from the Canadian Association of Oilwell Drilling Contractors (“CAODC”), which measures drilling rig utilization based on spud to rig release dates. CanElson also references the Baker Hughes rig count in the US as a measure of US industry activity.

Revenue, operating expenses, and depreciation per drilling day are calculated as totals of the respective items divided by the number of drilling days, and these measures are not indicative of our drilling rig rates.

G&A as a percentage of revenue is calculated as total administration expense divided by total revenue.

FORWARD LOOKING INFORMATION

This MD&A contains forward-looking information pertaining to: our activity level expectations across each of our geographic operating regions; our expectation that the transaction involving the Corporation and Trinidad Drilling Ltd. will close on August 10, 2015; our 2015 capital program; expectations regarding existing credit facilities and cash flow from operating activities described under “Risks and Uncertainties - Liquidity Risk”; our expectations with respect to interest rates; and our expectation with respect to foreign exchange rates. 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, the Joint Information Circular dated June 29, 2015 in respect of the transaction involving the Corporation and Trinidad Drilling Ltd. 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.