

With Rigs and Technology that Allows for Less Flare Gas and More Employment in North America, Everyone Wins with CanElson Drilling Inc. - a Leading Oilfield Services Provider with Operations in the Canadian West Sedimentary Basin, the Permian Basin in Texas, USA and the Ebano-Panuco-Cacalilao field near Tampico, Mexico

**Energy
Oil Services
(CDI-TSX)**

CanElson Drilling Inc.

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**W. Randy Hawkings
President and CEO**

BIO:

- Over 33 years of experience in the oilfield services sector, including over 22 years of drilling engineering, both domestically and internationally, and over 11 years of drilling contractor experience, including new rig construction and footage drilling.

- Was a Principal of Enercon International and Enercon Engineering, providing drilling project management

services for various oil companies in Western and Eastern Canada, West Texas in the United States, as well as Argentina, Bolivia and Venezuela in South America.

- Vice President and COO of Western Lakota Energy Services from 2003 to 2006

- Vice President and General Manager of the Lakota Drilling Division for Savanna Energy Services from 2006 to 2007.

- Prior to Enercon and Western Lakota, Mr. Hawkings was employed as a drilling engineer for Ladd Exploration Company, Hi-Tower Drilling and Canadian Superior Oil.

- Mr. Hawkings has a Bachelor of Applied Science (Mechanical Engineering) from the University of British Columbia and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA).

Company Profile:

CanElson Drilling Inc. ("CanElson") is a leading provider of oilfield services.

Founded in 2008, CanElson is engaged in the manufacture and operation of drilling rigs in Canada's Western Sedimentary Basin ("WCSB"), the Permian Basin (West Texas, USA), North Dakota and the Ebano-Panuco-Cacalilao field near Tampico, Mexico.

**Interview conducted by:
Lynn Fosse, Senior Editor**

CEOCFO: Mr. Hawkings, I understand CanElson's goal is to be one of

the top Canadian contractors and to lead with cutting-edge drilling technology, what are you doing today?

Mr. Hawkings: We started out with a type of rig design specifically aimed at the resource drilling market, meaning the horizontal resource place, be they oil or natural gas liquids. It is a very small footprint designed to be in the bush. It is designed to go together extremely quickly. I call it a plug and play. It is designed to drill anywhere from about fifteen hundred meters to five thousand five hundred meters or eighteen thousand feet. The intent back when we started was to have the type of rig that I might characterize as the Swiss army knife of drilling rigs. Meaning it can do a whole lot of things and still fit in your pocket (small footprint). That was how we started. We have been growing that concept in various different markets; Canada, North Dakota, Texas and into Mexico. One of the other recent initiatives is that we have been looking at ways to save money on fuel because we are burning diesel fuel in all these rigs. One of them was to put in natural gas as a bi-fuel (or dual fuel). That means that the natural gas is actually burned together with the diesel fuel and it is a retrofit on your engine. You don't have to buy a new engine; you just have to retrofit the ones you currently have. It is for saving cost for the operators and for us. We have technology we have developed to take flare gas to a rig and we are still doing pilot tests on that. Ultimately, that would be the ripe, high-hanging fruit, to be able to take what was essentially waste natural gas today and use it in mobile equipment whether it be a drilling rig, a frack

spread, or anything that needs a source of fuel being natural gas.

CEO CFO: How is your technology on the rigs different from what is available?

Mr. Hawkings: The actual technology other than the straight taking it from a flare to a drilling rig, the rest of the technology for bi-fuel for compressed natural gas transport for compression of natural gas and for processing of natural gas is all existing technology. The exception is when you are taking flare gas directly to a rig, that is more complicated and the subject of our patent pending. In terms of using bi-fuel on rig with using compressed natural gas transport, the real art of that is in taking gas from a source, taking it to a rig, and making the transition essentially seamless. As you can appreciate, there are a lot of parties involved. There is the production foreman and production manager at one end; there is the transport, the Transport Canada or the Department of Transport (U.S.). There is hooking it up, plumbing in the actual equipment, and then making it so the rig guys really don't see any difference other than there is a different fuel truck parked there than the normal diesel one. Therefore, it is more the actual execution of it that becomes the key than it is necessary in all the technology, although technology is evolving and there are a few ideas afoot to make things better. An example would be the bi-fuel injector system. There are existing systems and there are newer ones coming to market that are a little better. Sort of, if you would, going from an iPad to an iPad III, there have been improvements along the way. Similarly, in this business, what you are trying to do is take inexpensive or waste natural gas and use it in a diesel engine.

CEO CFO: What about your fleet itself?

Mr. Hawkings: The fleet, for the most part, the majority of them are these small footprint, ultra heavy (meaning they can drill deep), telescoping doubles. Telescoping means that the

most telescopes up and down for easy transport. Double means that when you are going in or out of the well you are pulling two pieces of thirty-foot pipe at a time rather than a single, which would pull one, or a triple, which would pull three. Therefore, it is a very efficient package.

CEO CFO: What about the age of your fleet?

Mr. Hawkings: The age of the fleet as we sit today is less than four and a half years on average. The other thing with the telescoping double is that we are able to do some of the deeper wells that historically were only handled by triples. We can move in about a half a day and the trucking cost because of the number of loads we have is substantially less than most of the triples, we are able to move much less expensively from a trucking per-

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spective. It comes back to the earlier plug and play, extremely efficient, small footprint package.

CEO CFO: How do you stack up against your competitors and why are you being chosen first?

Mr. Hawkings: We measure ourselves against our competitors all the time. However, we have been sticking to a fairly simple model which is; build a reasonably cost efficient rig which will give the shareholder a good return on his invested capital. At the same time, we have managed our balance sheet to keep it with a minimal amount of debt. Therefore, in a volatile commodities world that we face now, we are able to first of all adapt to any changes in it. Second of all, we have dry powder for any opportunities that might come along.

CEO CFO: What areas are you active in and what is the use rate of your rigs?

Mr. Hawkings: We are in western Canada, Alberta and Saskatchewan and Manitoba. We have a total of twenty one rigs across western Canada sedimentary basin. Typically, we are running ten to twenty percent above market mainly because of the style of rig that is in high demand, of course subject to weather constraints as are typically in Canada. We have four rigs in North Dakota drilling basically in the Bakkan Plays down there. Utilization on those is very much similar to Canada because the weather is very similar to southeast Saskatchewan. Moving further south, we have eight rigs in west Texas, in the Permian Basin near Midland, and we will be adding another few rigs this year

into that area. That is light sweet crude oil. We have a couple of drilling rigs and a couple of service rigs in Mexico. We are not necessarily in the service rig business except as where it serves us, as in this particular case. The service rigs were there to help the drilling rigs because the drilling rigs were historically being used for completion work, which was inefficient. The two drilling rigs down there are actually subcontracted, which was part of our strategy entering into a

foreign country. Also, we took a partner, which was a Mexican service company. And we also rented the rigs rather than take our own in until we could get our feet on the ground and see exactly what the landscape looked like.

CEO CFO: What is the strategy for the next year or two?

Mr. Hawkings: The strategy, we still have a tremendous amount of demand for new build telescoping double rigs. We have also had a few customers suggest that if we could build a new design of triple rig that would move without cranes that they would consider taking some of them. As we sit today, it is to look at any opportunities that come through the door for acquisitions but be very selective. Secondly, build new rigs of which we

can build somewhere between six and eight a year and continue to build those as we are able to secure long-term contracts. Also, maintain a balance sheet that allows us the flexibility to either build new rigs or make an acquisition, should such an opportunity arise.

CEOCFO: Is there a consolidation in the industry that would make acquisitions more likely?

Mr. Hawkings: There are many people that have rigs for sale. However, I look for several things. I look for where they are drilling, whether they are drilling in oil or natural gas. I look for the type of rig. Will that type of rig that is for sale be relevant in a market which conceivably could weaken? I look for the people. What are you getting for people with it? Are they dedicated and committed to maintenance and safety. All those things become a factor in the consolidation process. We can afford to be selective and we are. Secondly, I would look at each area in terms of the number of rigs. I would like to grow the areas that have fewer than twelve to fifteen rigs, up to twelve to fifteen rigs over the next couple of years. Texas with eight, I would like to see that at fifteen in a couple of years. North Dakota, I would like to see it get up to ten or a dozen rigs in a few years. Alberta has seven rigs and I would like to add a few more to that division. Really, the incremental overhead to add that number of rigs is not substantial, because

although you may double your rig fleet in size, it is not a doubling of the people required in terms of your overhead.

CEOCFO: What have you learned in your approximately thirty years in the oil field services sector that has been most helpful for you in running CanElson?

Mr. Hawkings: I spent twenty two years on the operator side. I was a drilling, completion and reservoir engineer, so I learned the perspective of oil companies and how they think about the economics of wells. I think that gives me a substantial advantage in terms of being able to appreciate what position they are coming from. The remainder of my career has been on the service side. Therefore, I have both sides of the desk covered in terms of experience. I think it allows me to adapt to the kind of situations we find ourselves in, in an ever changing world. The second thing we have done here is, with the exception of the finance group, everybody at the vice presidential levels are drilling guys. My chairman started on a drilling rig in the mid sixties. All of my vice presidents and chief operating officer started on the rigs as rough-necks. Everybody did. Therefore, we have a connection with the field personnel that you can only get by actually having worked there and done the same job.

CEOCFO: Why should potential in-

vestors pay attention to CanElson Drilling today?

Mr. Hawkings: Several reasons. First of all, our return on invested capital, we do manage our capital wisely so that there is a good return. We have rigs in virtually all of the emerging or the important oil plays or natural gas liquids plays, resource wise, currently underway. We have an initiative with natural gas that can do several things. First of all, help the environment. Second of all, show cost savings for the operator. Third and as importantly, get some return for our shareholders. It is one of those rare scenarios with the compressed natural gas fuel that we can actually see all the stakeholders getting some benefit. That is not always the case when you are talking about environmental responsibility. In a lot of cases there is a significant cost that you have to get comfortable with. In our case, we think everybody can put a "W" in their column for a "win", including the communities that you are working around, because there is going to be less flare gas, and more employment in North America where unemployment is a concern. Further, we are paying a dividend. However, we can pay a dividend and grow the company, because of how we have managed our finances, as well as have such a clean balance sheet. I think that is attractive to an investor that wants a return, but also wants to see some growth.



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