



TRINIDAD DRILLING LTD.

OFFER TO PURCHASE

**Offer to Purchase for Cash
Any and All Outstanding
7½% Senior Notes due 2019
(CUSIP Nos. 896356AD4 / C9196PAA4)
(ISINs US896356 AD48 / USC9196PAA42)**

The Offer (as defined below) will expire at 9:00 a.m., New York City time, on February 8, 2017, unless extended or earlier terminated by the Company (as defined below) in its sole discretion (such time, as the same may be extended or earlier terminated, the “Expiration Time”). **Tendered Notes may be withdrawn at any time at or prior to the Expiration Time.**

Trinidad Drilling Ltd., an Alberta corporation (the “Company”), hereby offers to purchase for cash any and all of its outstanding 7½% Senior Notes due 2019, CUSIP Nos. 896356AD4 / C9196PAA4, ISINs US896356AD48 / USC9196PAA42 (the “Notes”), from holders thereof (each, a “Holder” and collectively, the “Holders”), at the prices set forth below, upon the terms and subject to the conditions set forth in this Offer to Purchase (as it may be amended or supplemented from time to time, this “Statement”) and in the related Letter of Transmittal (as it may be amended or supplemented from time to time, the “Letter of Transmittal”) and the Notice of Guaranteed Delivery (as it may be amended or supplemented from time to time, the “Notice of Guaranteed Delivery”), which together constitute the Offer (the “Offer”). As of January 24, 2017, we had \$450,000,000 aggregate principal amount of Notes outstanding.

The consummation of the Offer and the Company’s obligation to accept for purchase, and to pay for, Notes validly tendered (and not validly withdrawn) pursuant to the Offer are also subject to the satisfaction of or waiver of certain conditions, including (a) the Company’s successful completion of one or more capital markets transactions, including potential debt and equity securities offerings, in an amount sufficient, along with borrowings under the Company’s revolving credit agreement and cash on hand, to (i) fund the purchase of validly tendered Notes accepted for purchase in the Offer and (ii) pay all fees and expenses associated with the foregoing financing and the Offer, all on terms acceptable to the Company in its sole discretion, and (b) satisfaction of the other conditions set forth in “Terms of the Offer—Conditions to the Offer.” The Company reserves the right to amend or waive any of the conditions to the Offer, in whole or in part, at any time or from time to time, in its sole discretion.

The consideration for each \$1,000 principal number of Notes validly tendered and accepted for purchase pursuant to the Offer shall be the total consideration as set forth in the table below (the “Notes Consideration”). In addition, Holders who validly tender and do not validly withdraw their Notes in the Offer will also be paid a cash amount equal to accrued and unpaid interest, if any, from the last interest payment date up to, but not including, the Settlement Date (as defined below) (“Accrued Interest”).

Subject to the terms and conditions to the Offer, the Company expects to accept for purchase promptly following the Expiration Time all of the Notes validly tendered and not validly withdrawn (the date of such acceptance, the “Acceptance Date”). With respect to Notes accepted for purchase on the Acceptance Date and delivered on or prior to the Expiration Time, if any, the Holders thereof will receive payment of the Notes Consideration for such accepted Notes on or promptly after the Acceptance Date, with the date on which the Company deposits with DTC the aggregate Notes Consideration for such Notes, together with an amount equal to Accrued Interest thereon, being referred to as the “Settlement Date.” With respect to accepted Notes delivered pursuant to the guaranteed delivery procedures described below, the Holders thereof will receive payment of the Notes Consideration for such Notes one business days after the Notice of Guaranteed Delivery Date (as defined below), together with an amount equal to the Accrued Interest thereon, such date being referred to as the “Guaranteed Delivery Settlement Date.” For the avoidance of doubt, Accrued Interest will cease to accrue on the Settlement Date for all Notes accepted in the Offer.

Notes	CUSIP Numbers / ISIN	Principal Amount Outstanding as of January 24, 2017	Notes Consideration ⁽¹⁾
7½% Senior Notes due 2019	CUSIP Nos. 896356AD4 / C9196PAA4 ISINs US896356 AD48 / USC9196PAA42	\$450,000,000.00	\$1,005.00

⁽¹⁾ Per \$1,000 principal amount of Notes and excluding accrued and unpaid interest. Holders will receive in cash an amount equal to accrued and unpaid interest in addition to the Notes Consideration.

If the Company makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, the Company will disseminate additional Offer materials and extend the Offer to the extent required by law, provided that in the case of a material change to the terms of the Offer, the Offer will remain open at least three business days from the date the Company first gives notices to Holders, by public announcement via a press release through a widely disseminated news or wire service (or otherwise to the extent permitted by applicable law) prior to 10:00 a.m. New York City time on such day, of such material change. If the consideration to be paid in the Offer with respect to the Notes is increased or decreased, the Offer will remain open at least five business days from the date the Company first gives notice to Holders, by public announcement via a press release through a widely disseminated news or wire service (or otherwise to the extent permitted by applicable law) prior to 10:00 a.m. New York City time on such day, of such increase or decrease.

THIS STATEMENT, THE INFORMATION INCORPORATED BY REFERENCE, AND THE LETTER OF TRANSMITTAL SHOULD BE READ CAREFULLY BEFORE A DECISION IS MADE WITH RESPECT TO THE OFFER.

NEITHER THIS STATEMENT NOR ANY OF THE OTHER DOCUMENTS RELATING TO THE OFFER HAVE BEEN FILED WITH OR REVIEWED BY ANY FEDERAL, STATE OR PROVINCIAL SECURITIES COMMISSION OR REGULATORY AUTHORITY OF ANY COUNTRY, NOR HAS ANY SUCH COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS STATEMENT OR ANY OF THE OTHER DOCUMENTS RELATING TO THE OFFER. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL AND MAY BE A CRIMINAL OFFENSE.

The Dealer Manager for this Offer is:

RBC Capital Markets

January 25, 2017

Notwithstanding any other provision of the Offer, the consummation of the Offer and the Company's obligation to accept for purchase, and to pay for, Notes validly tendered (and not validly withdrawn) pursuant to the Offer is subject to, and conditioned upon, the satisfaction of or, where applicable, its waiver of certain conditions, including (a) the Company's successful completion of one or more capital markets transactions, including potential debt and equity securities offerings, in an amount sufficient, along with borrowings under the Company's revolving credit agreement and cash on hand, to (i) fund the purchase of validly tendered Notes accepted for purchase in the Offer and (ii) pay all fees and expenses associated with the foregoing financing and the Offer, all on terms acceptable to the Company in its sole discretion, and (b) satisfaction of the other conditions set forth in "Terms of the Offer—Conditions to the Offer." The Company reserves the right to amend or waive any of the conditions of the Offer, in whole or in part, at any time or from time to time, in its sole discretion.

In the event that the Offer with respect to the Notes is withdrawn or otherwise not completed, the Notes Consideration will not be paid or become payable to Holders of Notes who have validly tendered their Notes in connection with the Offer. In any such event, Notes previously tendered pursuant to the Offer will be promptly returned to the tendering Holder.

Subject to the terms and conditions set forth herein, the Company expects to accept for purchase on the Acceptance Date all of the Notes that are validly tendered prior to the Expiration Time. With respect to Notes accepted for purchase on the Acceptance Date and delivered on or prior to the Expiration Time, the Holders thereof will receive payment of the Notes Consideration for such accepted Notes on the Settlement Date. With respect to accepted Notes delivered pursuant to the guaranteed delivery procedures described below, the Holders thereof will receive payment of the Notes Consideration on the Guaranteed Delivery Settlement Date.

Notes may be tendered and accepted for payment only in principal amounts equal to minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. No alternative, conditional or contingent tenders will be accepted. Holders who tender less than all of their Notes must continue to hold Notes in the minimum authorized denomination of \$2,000 principal amount. All references in this Statement to "\$" are to U.S. dollars.

Subject to applicable laws and the terms set forth in the Offer, the Company reserves the right, with respect to the Notes, (i) to waive or modify in whole or in part any and all conditions to the Offer, (ii) to extend the Expiration Time, (iii) to modify or terminate the Offer, (iv) to decrease the principal amount of Notes subject to the Offer, or (v) to otherwise amend the Offer in any respect.

Subject to the terms and conditions set forth in this Statement, the Letter of Transmittal and the Notice of Guaranteed Delivery, the aggregate Notes Consideration, to which a tendering Holder is entitled pursuant to the Offer, will be paid on the Settlement Date or in the case of accepted Notes delivered pursuant to the guaranteed delivery procedures described below, on the Guaranteed Delivery Settlement Date. Under no circumstances will any interest on the Notes Consideration be payable because of any delay resulting from the guaranteed delivery procedures described below or in the transmission of funds to Holders by the Tender Agent (as defined below) or DTC.

Global Bondholder Services Corporation is acting as the Tender Agent (in such capacity, the "Tender Agent") and as the Information Agent (in such capacity, the "Information Agent") for the Offer. The Trustee for the Notes is Wells Fargo Bank, N.A. RBC Capital Markets, LLC is acting as the Dealer Manager for the Offer (the "Dealer Manager").

The Company currently expects to exercise its right to redeem any Notes not purchased in this Offer and that remain outstanding pursuant to the Indenture governing the Notes. In the event that the Company does not exercise its right to redeem the Notes, the Company reserves the absolute right, in its sole discretion, from time to time to purchase any Notes that remain outstanding after the Expiration Time, through open market or privately negotiated transactions, one or more additional tender offers or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the prices to be paid pursuant to the Offer or in a redemption, and could be for cash or other consideration.

Unless the context otherwise requires, the terms “Company,” “we,” “us” and “our” refer to the Company and its consolidated subsidiaries.

Holders of Notes should note the following times relating to the Offer:

Date	Calendar Date	Event
Launch Date.....	January 25, 2017.	Commencement of the Offer.
Expiration Time.....	9:00 a.m., New York City time, on February 8, 2017, unless extended or earlier terminated by the Company in its sole discretion.	The last date and time for Holders to tender Notes to qualify for the payment of the Notes Consideration.
Acceptance Date.....	The Company expects that the Acceptance Date will be the same date as the Expiration Time.	Acceptance of all Notes validly tendered prior to the Expiration Time.
Settlement Date	In respect of Notes that are accepted for purchase on the Acceptance Date and delivered on or prior to the Expiration Time, the Company expects the Settlement Date to occur as soon as reasonably practicable following the Acceptance Date.	The date on which the Company deposits with DTC the aggregate Notes Consideration for Notes tendered and accepted for purchase on the Acceptance Date, together with an amount equal to Accrued Interest thereon. Accrued Interest will cease to accrue on the Settlement Date for all Notes accepted in the Offer.
Guaranteed Delivery Settlement Date	In respect of accepted Notes that are delivered pursuant to the guaranteed procedures described below, the Company expects the Guaranteed Delivery Settlement Date to occur one business days after the Notice of Guaranteed Delivery Date.	The date on which the Company deposits with DTC the aggregate Notes Consideration for accepted Notes tendered and delivered through the guaranteed delivery procedures described below, together with an amount equal to Accrued Interest thereon. For the avoidance of doubt, Accrued Interest will cease to accrue on the Settlement Date for all Notes accepted in the Offer.

The Company reserves the right to extend the Offer with respect to the Notes, if necessary, so that the Acceptance Date, occurs upon or shortly after the satisfaction or waiver of the conditions to the Offer.

Subject to applicable securities laws and the terms set forth in the Offer, the Company reserves the right, with respect to the Notes, (i) to waive or modify in whole or in part any and all conditions to the Offer, (ii) to extend the Expiration Time, (iii) to modify or terminate the Offer, (iv) to decrease the principal amount of Notes subject to the Offer, or (v) to otherwise amend the Offer in any respect. In the event that the Offer is terminated or otherwise not completed with respect to the Notes, the Notes Consideration relating to the Notes, will not be paid or become payable to Holders of such Notes, without regard to whether such Holders have validly tendered their Notes (in which case such tendered Notes will be promptly returned to the Holders).

IMPORTANT INFORMATION

A beneficial owner of Notes that are held of record by a broker, dealer, custodian bank, depository, trust company or other nominee must instruct such nominee to tender the Notes on the beneficial owner's behalf. See "Terms of the Offer—Procedure for Tendering Notes."

DTC has authorized DTC participants that hold Notes on behalf of beneficial owners of Notes through DTC to tender their Notes as if they were Holders. To effect a tender, DTC participants may, in lieu of physically completing and signing the Letter of Transmittal, transmit their acceptance to DTC through the DTC Automated Tender Offer Program ("ATOP"). To effect such a tender, participants should transmit their acceptance through ATOP and follow the procedure for book-entry transfer set forth under "Terms of the Offer—Procedure for Tendering Notes." Neither Holders nor beneficial owners of tendered Notes will be obligated to pay brokerage fees or commissions to the Dealer Manager, the Tender Agent, the Information Agent or the Company. If you desire to tender your Notes and (1) your Notes certificates are not immediately available or cannot be delivered to the Tender Agent, (2) you cannot comply with the procedure for book-entry transfer or (3) you cannot deliver the other required documents to the Tender Agent by the expiration of the Offer, you must tender your Notes according to the guaranteed delivery procedure described below.

Questions and requests for assistance may be directed to the Dealer Manager or the Information Agent at their addresses and telephone numbers set forth on the back cover of this Statement. Additional copies of this Statement, the Letter of Transmittal and the Notice of Guaranteed Delivery and other related materials may be obtained from the Information Agent at its address and telephone numbers set forth on the back cover of this Statement. Beneficial owners may also contact their brokers, dealers, custodian banks, depositories, trust companies or other nominees through which they hold the Notes with questions and requests for assistance.

Neither this Statement nor the Offer constitute a notice of redemption under the optional redemption provisions of the indenture governing the Notes.

The statements made in this Statement are made as of the date on the cover page. The delivery of this Statement, the Letter of Transmittal and the Notice of Guaranteed Delivery shall not under any circumstances create any implication that the information contained herein or incorporated by reference is correct as of a later date or that there has been no change in such information or in the affairs of the Company or any of its subsidiaries or affiliates since such dates.

This Statement does not constitute an offer to purchase any Notes in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer under applicable securities or "blue sky" or other laws. Nothing in this Statement, the Letter of Transmittal or the Notice of Guaranteed Delivery constitutes an offer to sell any securities.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Statement and, if given or made, such information or representation may not be relied upon as having been authorized by the Company or the Dealer Manager.

None of the Company, its board of directors, the Trustee, the Information Agent, the Tender Agent, the Dealer Manager or any of their respective affiliates makes any recommendation as to whether Holders should tender, or refrain from tendering, all or any portion of the principal amount of their Notes pursuant to the Offer.

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SUMMARY

This Statement and the Letter of Transmittal contain important information that should be read carefully before any decision is made with respect to the Offer. Unless the context otherwise requires, references in this Statement to “Trinidad,” the “Company,” “we,” “our,” “us” or like terms refer to Trinidad Drilling Ltd. and its consolidated subsidiaries.

The following summary is provided solely for the convenience of Holders. This summary is not intended to be complete and is qualified in its entirety by reference to the full text and more specific details contained elsewhere in this Statement, the Letter of Transmittal and any amendments or supplements hereto or thereto. Holders are urged to read this Statement and the Letter of Transmittal in their entirety. Each of the capitalized terms used but not defined in this summary has the meaning set forth elsewhere in this Statement.

The Company

We are a publicly traded (TSX: TDG) oilfield services company, currently operating in the drilling sector of the oil and natural gas industry, with operations in the Permian Basin and other resource plays in the U.S. and the UAE (our “U.S. and International Drilling Operations”) and Canada. In addition, through joint venture arrangements, TDI joint venture and Diavaz CanElson de Mexico, S.A. de C.V., Trinidad operates drilling rigs in Saudi Arabia and Mexico, and is currently assessing operations in other international markets. We have the in-house skills and ability to recertify our equipment and to engineer, design and assemble new or upgraded drilling equipment. Our diverse operations are focused in multiple hydrocarbon producing basins, including complex and technically demanding shale plays where we believe we are a market leader. The advancement in drilling and completion techniques over the past few years has improved the economics of drilling in our areas of operation, and we believe our fleet is well positioned to benefit from these changes. Our company was founded in 1996 and is based in Calgary, Alberta, Canada.

Recent Developments

Credit Agreement Amendment. Trinidad has submitted a request to the agents and lenders under the its credit facility to enter into a consent and/or amendment agreement prior to the issuance of the Notes for Trinidad to use up to US\$50,000,000 of the Credit Facility to repurchase or redeem the 2019 Notes and to make other certain related amendments. The proposed terms of the consent or amendment are currently being considered by the agents and the lenders under the Credit Facility and are subject to lender approval. The initial proposed terms include that not more than 50% of any repurchase or redemption of the 2019 Notes be made from the Credit Facility and that any such advances and repurchases or redemptions be made by July 19, 2017, and that after giving effect to each repurchase or redemption, Trinidad must be in compliance with a pro forma calculation of its minimum consolidated EBITDA to consolidated interest expense ratio which shall not be less than 2.50 to 1.00.

Announcement of 2017 Capex Budget and Operational Update. On January 17, 2017, we announced that Trinidad expects to spend approximately \$40 million in capital expenditures in 2017. The capital budget is comprised of anticipated maintenance capital of approximately \$18 million and select upgrade projects totaling approximately \$22 million. Trinidad’s 2017 capital budget includes maintenance capital to recertify existing equipment and replenish drill pipe inventory, as a growing number of rigs return to work. In addition, upgrade projects are planned for eight rigs, four in Canada and four in the U.S. These projects include increasing the pressure capacity of mud circulating systems, adding mud pumps and high-torque top drives, and making certain bi-fuel upgrades. Trinidad expects that these upgrades will provide increased utilization and margins as demand for high specification equipment grows. Trinidad also expects to utilize existing capital inventory items to upgrade and maintain its fleet in 2017. Although Trinidad continues to evaluate a number of opportunities in its joint venture, at this time, there are no planned capital expenditures in 2017 for joint venture operations.

Operational Update on January 17, 2017. Since the end of the third quarter of 2016, activity levels have improved in both Canada and the U.S. Announcements by industry participants to cut oil production, improving commodity prices and winter drilling seasonality have all provided positive momentum for drilling activity. Trinidad is actively pursuing opportunities to move idle equipment from lower demand areas to higher activity areas, both domestically and internationally.

Canada and U.S.— At January 17, 2017, Trinidad had 38 rigs, or 53%, of its Canadian fleet operating, up from an average of 20% during the third quarter of 2016. Demand remains strongest in the Montney and the Deep Basin, with a growing number of rigs also operating in Saskatchewan. On the same date, in the Company’s U.S. and International Drilling Operations, 24 rigs, or 36%, of the fleet were operating, up from an average of 19% during the third quarter of 2016. The Permian Basin continues to be the strongest area of demand, with 75% of the active U.S. fleet operating in this basin. In addition, the Company currently has rigs operating in the Eagle Ford and Haynesville Shales.

Trinidad has successfully crewed its rigs as they have gone back to work, despite a high level of rig reactivations in a short period of time. As part of this rig reactivation process, Trinidad has remained focused on ensuring the training and safety of its crews meets its usual high levels and Trinidad has continued to record excellent operational and safety performance.

As activity has grown over the past few months, Trinidad is beginning to see opportunities to increase dayrates, particularly in the U.S. and for specific, high-performance rigs. Trinidad has taken advantage of the improving industry conditions and has added four new long-term contracts to its contract base. These contracts range in term from 18 months to two years and bring the Company’s overall contract base to 29 rigs, or 19%, of the Company’s fleet, with an average term remaining of 1.3 years. Of the current contract base, 12 contracts expire during 2017. Given the current industry fundamentals and future outlook, Trinidad expects to be in a position to renew contracts over the coming year.

Trinidad’s joint venture operations continue to contribute positively to the Company. On January 17, 2017, in Saudi Arabia, three rigs were operating with a fourth rig receiving standby revenue. In Mexico, one rig recently returned to work and three rigs continue to receive standby revenue. At September 30, 2016, the joint venture had approximately \$68 million (\$41 million Trinidad’s share) of cash on hand. Trinidad and its joint venture partner anticipate that future cash distributions will be made to the partners, depending on working capital and capital expenditure requirements within the joint venture.

Trinidad continues to evaluate international expansion prospects through both its joint venture and independently. Currently, the Company’s main areas of focus for potential opportunities are the Middle East and Latin America.

If you have questions, please call the Information Agent or the Dealer Manager at their respective telephone numbers on the back cover of this Statement.

The Company Trinidad Drilling Ltd.

The Notes..... 7½% Senior Notes due 2019 (CUSIP Nos. 896356AD4 / C9196PAA4; ISINs US896356 AD48 / USC9196PAA42).

Principal Amount

Outstanding..... \$450,000,000.

The Offer The Company is offering to purchase for cash, upon the terms and subject to the conditions set forth in this Statement, the Letter of Transmittal and the Notice of Guaranteed Delivery, any and all of its outstanding Notes, validly tendered and accepted for purchase by the Company. See “Terms of the Offer—General.”

Notes Consideration The Notes Consideration for the Notes shall be \$1,005.00 per \$1,000.00 principal amount.

Accrued Interest..... The Notes Consideration for the Notes will be paid together with a cash amount equal to accrued and unpaid interest, if any, from the last interest payment date for the Notes up to, but not including, the Settlement Date.

Expiration Time	9:00 a.m., New York City time on February 8, 2017, unless extended or the Offer is earlier terminated by the Company in its sole discretion. The Company retains the right to extend the Offer with respect to the Notes for any reason.
Acceptance Date	The Company expects that the Acceptance Date will be the same date as the Expiration Time, on which date the Company intends to accept for purchase all of the Notes tendered prior to the Expiration Time, subject to the satisfaction or waiver of the conditions to the Offer.
Settlement Date	In respect of Notes that are accepted for purchase on the Acceptance Date, the Company expects that the Settlement Date will be as soon as reasonably practicable following the Acceptance Date. Accrued Interest will cease to accrue on the Settlement Date for all Notes accepted in the Offer. In respect of accepted Notes that are delivered pursuant to the guaranteed delivery procedures described below, the Company expects that the Guaranteed Delivery Settlement Date will be one business day after the Notice of Guaranteed Delivery Date.
Withdrawal Rights.....	Notes tendered pursuant to the Offer at or prior to the Expiration Time may be withdrawn or revoked at any time at or prior to the Expiration Time (which is 9:00 a.m., New York City time, on February 8, 2017 (unless extended)), in accordance with the procedures described herein and as otherwise set forth herein.
How to Tender Notes.....	Any beneficial owner desiring to tender Notes pursuant to the Offer should request such beneficial owner's custodian or nominee to effect the transaction for such beneficial owner or according to the guaranteed delivery procedure described below. Participants in DTC may electronically transmit their acceptance of the Offer by causing DTC to transfer Notes to the Tender Agent in accordance with DTC's ATOP procedures for transfers. See "Terms of the Offer—Procedure for Tendering Notes." For further information, call the Information Agent or the Dealer Manager at their respective telephone numbers set forth on the back cover of this Statement or consult your broker, dealer, custodian bank, depository, trust company or other nominee for assistance.
Purpose of the Offer	The purpose of the Offer is to refinance the Notes with the net proceeds from one or more capital markets transactions, including potential debt and equity securities offerings, in an amount sufficient, along with borrowings under the Company's revolving credit agreement and cash on hand. See "Purpose of the Offer."
Conditions to the Offer	Notwithstanding any other provision of the Offer, the consummation of the Offer and the Company's obligation to accept for purchase, and to pay for, Notes validly tendered (and not validly withdrawn) pursuant to the Offer are subject to the satisfaction of or waiver of certain conditions, including (a) the Company's successful completion of one or more capital markets transactions, including potential debt and equity securities offerings, in an amount sufficient, along with borrowings under the Company's revolving credit agreement and cash on hand, to (i) fund the purchase of validly tendered Notes accepted for purchase in the Offer and (ii) pay all fees and expenses associated with the foregoing financing and the Offer, all on terms acceptable to the Company in its sole discretion, and (b) satisfaction of the other conditions set forth in "Terms of the Offer—Conditions to the Offer." The Company reserves the right to amend or waive any of the conditions to the Offer, in whole or in part, at any time or from time to time, in its sole discretion.

Acceptance for
Payment and Payment
for Notes

On the terms of the Offer and upon satisfaction or waiver of the conditions to the Offer specified herein under “Terms of the Offer—Conditions to the Offer,” the Company will (a) accept for purchase Notes validly tendered (or defectively tendered, if in its sole discretion the Company waives such defect) and not validly withdrawn, (b) promptly pay to DTC, on the Settlement Date, the Notes Consideration, plus an amount equal to Accrued Interest thereon, for Notes that are tendered in the Offer and accepted for purchase and (c) pay on the Guaranteed Delivery Settlement Date, the Notes Consideration for such accepted Notes delivered pursuant to the guaranteed delivery procedures set forth below, plus an amount equal to the Accrued Interest thereon.

The Company reserves the right, subject to applicable law, to (a) accept for purchase and pay for all of the Notes validly tendered at or prior to the Expiration Time with respect to the Offer and to keep the Offer open or extend the Expiration Time to a later date and time and (b) waive all conditions to the Offer with respect to the Notes tendered at or prior to the Expiration Time.

Certain Significant
Consequences

For a summary of certain significant consequences of the Offer, see “Certain Significant Consequences.”

Certain United States
Federal Income Tax
Consequences

For a summary of certain United States federal income tax consequences of the Offer, see “Certain United States Federal Income Tax Consequences.”

Brokerage Commissions....

No brokerage commissions are payable by Holders to the Dealer Manager, the Information Agent, the Company, the Trustee or the Tender Agent.

Dealer Manager

RBC Capital Markets, LLC

Information Agent

Global Bondholder Services Corporation

Tender Agent

Global Bondholder Services Corporation

Further Information

Questions may be directed to the Dealer Manager or the Information Agent, and additional copies of this Statement, the Letter of Transmittal and the Notice of Guaranteed Delivery may be obtained by contacting the Information Agent, at their respective telephone numbers and addresses set forth on the back cover of this Statement.

SELECTED CONSOLIDATED FINANCIAL DATA

We have derived the following selected consolidated financial data as of December 31, 2015 and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 from our audited consolidated financial statements included elsewhere in this Statement. We have derived the following selected consolidated financial data as of September 30, 2016 and for the nine-month periods ended September 30, 2016 and 2015 from our unaudited interim consolidated financial statements included elsewhere in this Statement. The results of operations for the interim periods are not indicative of the results to be expected for a full year of operation. The following selected consolidated financial data has been prepared in accordance with International Financial Reporting Standards (IFRS), and the unaudited consolidated interim financial statements for the three and nine months ended September 30, 2016, prepared in accordance with IFRS applicable to the preparation of the interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting.

The following selected consolidated financial data is qualified by reference to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto, and “Management’s Discuss and Analysis of Financial Condition and Results of Operations,” which are included as *Annex A* to this Statement.

We state our consolidated financial data in Canadian dollars.

	Nine months ended September 30,		Year Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(unaudited)						
(CDN\$ thousands)							
Statement of Operations Data							
Revenues	269,086	413,894	551,899	941,344	845,888	859,327	818,150
Expenses							
Operating expense	137,749	247,707	329,733	626,175	516,081	530,176	509,663
General and administrative	41,764	44,648	62,931	65,649	71,004	57,545	61,150
Depreciation and amortization	128,043	69,953	118,900	125,012	117,067	113,527	112,711
Foreign exchange	(2,676)	9,517	7,172	5,017	1,342	(753)	(3,202)
Loss/(gain) on sale of assets	(10,575)	(2,119)	(1,571)	(8,238)	1,341	(11,841)	(5,978)
Impairment of property and equipment	—	26,937	205,628	77,535	131	78,853	8,993
Impairment of goodwill	—	111,847	111,847	—	—	—	—
	<u>294,305</u>	<u>508,490</u>	<u>834,640</u>	<u>891,150</u>	<u>706,966</u>	<u>767,507</u>	<u>683,337</u>
Loss (gain) from investment in joint ventures	6,730	(4,741)	1,530	(19)	768	—	—
Finance and transaction costs	39,779	42,267	55,851	39,531	42,368	41,662	44,670
Non-controlling interest fair value adjustment	(5,944)	—	—	—	—	—	—
Earnings (loss) before income taxes	(65,784)	(132,122)	(340,122)	10,672	95,786	50,158	90,143
Income taxes	(24,249)	(55,167)	(121,776)	4,076	24,834	(4,880)	13,662
Net earnings (loss)	(41,535)	(76,955)	(218,346)	6,596	70,592	55,038	76,481
Other Financial Data							
Cash provided by (used in):							
Operating activities	38,293	108,909	215,462	156,519	299,013	259,005	187,817
Investing activities	19,817	(205,259)	(269,587)	(331,421)	(103,789)	(162,509)	(139,399)
Financing activities	(91,665)	41,227	34,534	(29,484)	64,507	(87,249)	(63,839)
Balance Sheet Data:							
Cash and cash equivalents ..	29,344		63,686	71,062	268,160	4,933	(4,600)
Total current assets	112,371		194,859	344,185	452,433	201,228	240,112
Property and equipment	1,499,306		1,656,268	1,325,730	1,275,465	1,253,921	1,279,826

	Nine months ended September 30,		Year Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(unaudited)						
(CDN\$ thousands)							
Total assets	1,949,092		2,236,200	1,941,621	1,827,496	1,541,294	1,608,126
Long-term debt, net of transaction costs (including current portion).....	585,715		706,920	527,808	468,670	509,832	580,747
Total shareholders' equity..	1,237,986		1,319,459	1,135,891	1,114,088	863,849	841,226

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Statement contains certain “forward-looking information” and “financial outlook” within the meaning of applicable Canadian securities laws and “forward-looking statements” within the meaning of the U.S. federal securities laws (collectively referred to as “forward-looking statements”). Such forward-looking statements have been provided to assist investors in understanding Trinidad’s business and may not be appropriate for other purposes.

Statements that are not historical facts, but that address activities, events or developments that we expect or anticipate will or may occur in the future, including references to future goals or intentions or other such references, are forward-looking statements. The use of any of the words “expect”, “anticipate”, “continue”, “estimate”, “objective”, “ongoing”, “may”, “will”, “believe”, “plans”, “intends”, “confident”, “might” and similar expressions are intended to identify forward-looking statements. In particular, but without limiting the foregoing, this Statement contains forward-looking statements pertaining to the following: the timing and completion of the Offer; outlook for operations; expectations respecting future industry and competitive conditions; industry activity levels; expectations that current legal actions against Trinidad will not have a material effect on the Company; strength of customer relationships; presence in strategic markets and modern asset base; expectations respecting potential international expansion; expectations respecting Trinidad’s long-term strategy; the expectation that Trinidad’s deeper drilling capacity, modern fleet, safety focused operations and experienced crews will make Trinidad’s drilling operations competitive; the effect of Trinidad’s geographic diversification; future performance and operations of the joint venture arrangement; the stability of Trinidad’s revenue and cash flow resulting from its long term, take or pay contracts; Trinidad’s long-term debt reduction strategy; Trinidad’s anticipated upgrade projects; expectations respecting customer needs and demands; expectations respecting future financial results; and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance.

Various material factors, expectations and assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking statements throughout this Statement. While Trinidad believes that the expectations and material factors and assumptions reflected in its forward-looking statements are reasonable as at the date hereof, there can be no assurance that any of these expectations, factors or assumptions will prove to be correct. In particular, in presenting its forward-looking statements, Trinidad has made assumptions respecting, among other things: that Trinidad will continue to upgrade rigs in a manner consistent with past practice and customer requests; that Trinidad’s customers will honor their take-or-pay contracts; that inventory items and existing capacity will be sufficient to maintain Trinidad’s fleet; that Trinidad will continue to be in a position to deploy its rigs in a manner consistent with past practice; the anticipated impact of new technology and advancements in drilling and completion techniques; future liquidity, debt levels and capital requirements; future industry conditions and general economic conditions; oil and gas supply and demand conditions in 2017; internal capital expenditure programs and other expenditures by oil and gas exploration and production companies; areas of industry activity and rig demand in such areas; expectations regarding seasonality; regulatory and legislative conditions; commodity prices, in particular oil and natural gas; future expected cash flows and potential distributions from joint venture partners including Trinidad Drilling International Ltd.; foreign currency exchange rates and interest rates; and future performance and operations of joint ventures and partnership arrangements.

The forward-looking statements included in this Statement are not a guarantee of future performance and should not be unduly relied upon. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: (i) volatility in market prices for oil, natural gas and liquefied natural gas; (ii) volatility in exchange rates for the Canadian dollar relative to other world currencies; (iii) liabilities and risks inherent in the drilling industry, including technical problems; (iv) competition for, among other things, capital, skilled personnel; (v) changes in general economic, market and business conditions in Canada, the United States, the United Arab Emirates, Mexico, Saudi Arabia and worldwide; (vi) actions by governmental or regulatory authorities (both domestic and foreign), including changes in tax laws and the risk of nationalization and expropriation of assets; (vii) the ability for the customers of Trinidad and its subsidiaries to raise capital and to continue with their drilling programs; (viii) the impact of adverse weather on the operations of Trinidad and its subsidiaries; (ix) increases and overruns in construction costs; (x) political uncertainty and instability in North America and internationally and changes in political leadership in North American and elsewhere; (xi) volatility in interest and

tax rates; (xii) operating risks inherent in the oilfield services industry; (xiii) variations in internal capital expenditure programs and other expenditure programs and other expenditures by oil and gas exploration and production companies; (xiv) volatility in supply and demand for commodities; and (xv) changes in general economic conditions including the capital and credit markets. The outcome and timing of the Offer may differ from that currently anticipated by Trinidad and regulatory approvals may not be obtained on the timelines anticipated or at all. Should any one of a number of issues arise, Trinidad may also find it necessary to alter its current business strategy, capital expenditure and/or dividend program.

Trinidad cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. The forward-looking statements contained in this Statement are expressly qualified by this cautionary statement, including under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Annex A hereto. Accordingly, readers should not place undue reliance on forward-looking statements. These statements speak only as of the date of this Statement. None of the Company, its board of directors, the Trustee, the Information Agent, the Tender Agent, the Dealer Manager or any of their respective affiliates undertakes any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities laws.

CERTAIN SIGNIFICANT CONSEQUENCES

In deciding whether to participate in the Offer, each Holder should consider carefully, in addition to the other information contained or incorporated by reference in this Statement, the following:

Limited Trading Market

To the extent that only a portion of the Notes are tendered and accepted in the Offer, the trading market for Notes that remain outstanding will become more limited. A bid for a debt security with a smaller outstanding principal amount available for trading (a smaller “float”) may be lower than a bid for a comparable debt security with greater float. Therefore, the market price of any untendered or otherwise unpurchased Notes may be affected adversely to the extent that the Notes tendered and purchased pursuant to the Offer reduce the float. The reduced float may also tend to make the trading price more volatile. Holders of untendered or unpurchased Notes may attempt to obtain quotations for such Notes from their brokers; however, there can be no assurance that an active trading market will exist for the Notes following the Offer. The extent of the public market for the Notes following consummation of the Offer would depend upon the number of Holders holding Notes remaining at such time, and the interest in maintaining a market in the Notes on the part of securities firms and other factors.

Subsequent Repurchases of Notes; Redemption

The Company currently expects to exercise its right to redeem any Notes not purchased in this Offer and that remain outstanding pursuant to the Indenture governing the Notes. In the event that the Company does not exercise its right to redeem the Notes, the Company reserves the absolute right, in its sole discretion, from time to time to purchase any Notes that remain outstanding after the Expiration Time through open-market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the price paid pursuant to the Offer or in a redemption, and could be for cash or other consideration. The Company has the right but not the obligation to redeem any Notes that remain outstanding after the Offer, and the selection of any particular redemption date is in the Company’s discretion.

PURPOSE OF THE OFFER

The purpose of the Offer is to refinance the Notes with the net proceeds from one or more capital markets transactions, including potential debt and equity securities offerings, along with borrowings under the Company's revolving credit agreement and cash on hand.

SOURCE OF FUNDS

The Company expects to use the net cash proceeds from one or more capital markets transactions, including potential debt and equity securities offerings, along with borrowings under the Company's revolving credit agreement and cash on hand, to provide the total amount of funds required to purchase the Notes sought pursuant to the Offer and to pay all related fees and expenses in connection with the Offer. If the Offer is fully subscribed and Holders of any and all of the outstanding Notes tendered at or prior to the Expiration Time, the Company will require net proceeds of approximately \$452.3 million to consummate the Offer.

TERMS OF THE OFFER

General

Upon the terms and subject to the conditions set forth in this Statement, the Letter of Transmittal and the Notice of Guaranteed Delivery and any supplements or amendments hereto or thereto, the Company hereby offers to purchase for cash any and all of its outstanding Notes for the Notes Consideration payable on the Settlement Date.

Subject to the terms and conditions to the Offer or the waiver thereof by the Company in its sole discretion, Holders that validly tender and do not validly withdraw their Notes and validly deliver before the Expiration Time will be eligible to receive the Notes Consideration, together with an amount equal to Accrued Interest thereon.

Only Notes that are validly tendered in accordance with the procedures set forth herein before the Expiration Time will, upon the terms and subject to the conditions hereof, be eligible for acceptance by the Company. If so accepted, payment will be made therefor on the Settlement Date or in the case of accepted Notes delivered pursuant to the guaranteed delivery program, payment will be made on the Guaranteed Delivery Settlement Date. No such payments will be made with respect to the Notes if the Offer is terminated. All conditions to the Offer, if any Notes are to be accepted for purchase promptly after the Expiration Time, will be either satisfied or waived by the Company prior to or concurrently with the expiration of the Offer at the Expiration Time.

In the event of any dispute or controversy regarding the Notes Consideration or the amount of Accrued Interest for Notes tendered pursuant to the Offer, the Company's determination shall be conclusive and binding, absent manifest error.

In the event of a termination of the Offer with respect to the Notes, all Notes tendered pursuant to the Offer will be promptly returned to the tendering Holders. The Company currently expects to exercise its right to redeem any Notes not purchased in this Offer and that remain outstanding pursuant to the Indenture governing the Notes. In the event that the Company does not exercise its right to redeem the Notes, the Company reserves the absolute right, in its sole discretion, from time to time to purchase any Notes that remain outstanding after the Expiration Time through open market or privately negotiated transactions, one or more additional tender offers, or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the prices to be paid pursuant to the Offer or in a redemption.

The Company's obligation to accept and pay for Notes validly tendered pursuant to the Offer is conditioned upon satisfaction or waiver of certain conditions as set forth under "Terms of the Offer—Conditions to the Offer." **Subject to applicable securities laws and the terms set forth in the Offer, the Company reserves the right, with respect to the Notes, (i) to waive or modify in whole or in part any and all conditions to the Offer, (ii) to extend the Expiration Time, (iii) to modify or terminate the Offer, (iv) to decrease the principal amount of Notes subject to the Offer or (v) to otherwise amend the Offer in any respect.** The rights reserved by the Company in this paragraph are in addition to the Company's rights to terminate the Offer described in "Terms of the Offer—Conditions to the Offer."

Any amendment to the Offer with respect to the Notes will apply to all Notes tendered in the Offer. Any extension or amendment of the Expiration Time with respect to the Notes will be followed as promptly as practicable by public announcement thereof, the announcement in the case of an extension of the Expiration Time to be issued no later than 9:00 a.m., New York City time, on the next New York City business day after the previously scheduled Expiration Time. Without limiting the manner in which any public announcement may be made, the Company shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by issuing a press release to *Business Wire*.

If the Company makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, the Company will disseminate additional Offer materials and extend the Offer to the extent required by law, provided that in the case of a material change to the terms of the Offer, the Offer will remain open at least three business days from the date the Company first gives notice to Holders, by public announcement via a press release through a widely disseminated news or wire service (or otherwise to the extent permitted by applicable law) prior to 10:00 a.m. New York City time on such day, of such material change. If the consideration to be paid in the Offer with respect to the Notes is increased or decreased, the Offer will remain open at least five business days from the date the Company first gives notice to Holders, by public announcement via a press release through a widely disseminated news or wire service (or otherwise to the extent permitted by applicable law) prior to 10:00 a.m. New York City time on such day, of such increase or decrease. Any Notes that are tendered may be withdrawn at any time prior to the Expiration Time. See “Terms of the Offer—Withdrawal of Tenders.”

No Recommendation

None of the Company, its board of directors, the Trustee, the Information Agent, the Tender Agent, the Dealer Manager or any of their respective affiliates makes any recommendation as to whether Holders should tender, or refrain from tendering, all or any portion of the principal amount of their Notes pursuant to the Offer. Holders must make their own decisions with regard to tendering Notes and no one has been authorized by any of them to make such a recommendation. Holders must make their own decisions as to whether to tender Notes, and, if so, the principal amount of Notes to tender.

Settlement of Notes

Subject to the terms and conditions set forth herein, the Company expects to accept for purchase on the Acceptance Date all of the Notes that are validly tendered prior to the Expiration Time. With respect to Notes accepted for purchase on the Acceptance Date and delivered on or prior to the Expiration Time, the Holders thereof will receive payment of the Notes Consideration for such accepted Notes on the Settlement Date, which will be as soon as reasonably practicable after the Acceptance Date, and at which time the Company will deposit with DTC the aggregate Notes Consideration for such Notes, together with an amount equal to Accrued Interest thereon. With respect to accepted Notes delivered pursuant to the guaranteed delivery procedures described below, the Holders thereof will receive payment of the Notes Consideration for such Notes, together with an amount equal to the Accrued Interest thereon, on the Guaranteed Delivery Settlement Date. For the avoidance of doubt, Accrued Interest will cease to accrue on the Settlement Date for all Notes accepted in the Offer.

Notes may be tendered and accepted for payment only in principal amounts equal to minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. No alternative, conditional or contingent tenders will be accepted. Holders who tender less than all of their Notes must continue to hold Notes in the minimum authorized denomination of \$2,000 principal amount.

Conditions to the Offer

Notwithstanding any other provision of the Offer and in addition to (and not in limitation of) the Company’s rights to terminate, to extend and/or amend any or all of the Offer with respect to the Notes, in its sole discretion, the Company shall not be required to accept for payment, purchase or pay for, and may delay the acceptance for payment of, any Notes validly tendered (and not validly withdrawn), in each event subject to Rule 14e-l(c) under the Exchange Act, and may terminate any or all of the Offer, if any of the following has occurred:

- the Company has not successfully completed of one or more capital markets transactions, including potential debt and equity securities offerings, in an amount sufficient, along with borrowings under the Company's revolving credit agreement and cash on hand, to (a) fund the purchase of validly tendered Notes accepted for purchase in the Offer and (b) pay all fees and expenses associated with the foregoing financing and the Offer, all on terms acceptable to the Company in its sole discretion;
- there shall have been instituted, threatened or be pending any action, proceeding or investigation (whether formal or informal) (or there shall have been any material adverse development to any action or proceeding currently instituted, threatened or pending) before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person, in connection with the Offer that, in the sole judgment of the Company, either (a) is, or is reasonably likely to be, materially adverse to the business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects of the Company and its subsidiaries, (b) would or might prohibit, prevent, restrict or delay consummation of the Offer, or (c) would materially impair the contemplated benefits of the Offer to the Company or be material to Holders in deciding whether to accept the Offer;
- an order, statute, rule, regulation, executive order, stay, decree, judgment or injunction shall have been proposed, enacted, entered, issued, promulgated, enforced or deemed applicable by any court or governmental, regulatory or administrative agency or instrumentality that, in the sole judgment of the Company, either (a) would or might prohibit, prevent, restrict or delay consummation of the Offer or (b) is, or is reasonably likely to be, materially adverse to the business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects of the Company;
- there shall have occurred or be likely to occur any event affecting the business or financial affairs of the Company and its subsidiaries that, in the sole judgment of the Company, would or might result in any of the consequences referred to in the second bullet above;
- the Trustee shall have objected in any respect to or taken action that could, in the sole judgment of the Company, adversely affect the consummation of the Offer or shall have taken any action that challenges the validity or effectiveness of the procedures used by the Company in the making of the Offer or the acceptance of, or payment for, the Notes; or
- there has occurred (a) any general suspension of, or limitation on prices for, trading in securities in the United States or Canadian securities or financial markets, (b) any significant adverse change in the price of the Notes in the United States or Canadian or other major securities or financial markets, (c) a material impairment in the trading market for debt securities, (d) a declaration of a banking moratorium or any suspension of payments in respect to banks in the United States or other major financial markets, (e) any limitation (whether or not mandatory) by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, or other event that, in the reasonable judgment of the Company, might affect the extension of credit by banks or other lending institutions, (f) a commencement of a war, armed hostilities, terrorist acts or other national or international calamity directly or indirectly involving the United States, (g) in the case of any of the foregoing existing on the date hereof, a material acceleration or worsening thereof, or (h) any event that has resulted, or may in the sole judgment of the Company result, in a material adverse change in the business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects of the Company.

The foregoing conditions are for the sole benefit of the Company and may be asserted by the Company regardless of the circumstances giving rise to any such condition (including any action or inaction by the Company) and may be waived by the Company with respect to the Notes, in whole or in part, at any time and from time to time, in its sole discretion. All conditions to the Offer will, if any Notes are to be accepted for purchase promptly after the Expiration Time, be either satisfied or waived by the Company concurrently with or before such time. If any of the conditions are not satisfied at the Expiration Time, the Company may, in its sole discretion and without

giving any notice, terminate the Offer, or extend the Offer, and continue to accept tenders. The failure by the Company at any time to exercise any of the foregoing rights will not be deemed a waiver of any other right and each right will be deemed an ongoing right that may be asserted at any time and from time to time.

Acceptance for Payment and Payment for Notes

On the terms of the Offer and upon satisfaction or waiver of the conditions to the Offer specified herein under “Terms of the Offer—Conditions to the Offer,” the Company will (a) accept for purchase Notes validly tendered (or defectively tendered, if in its sole discretion the Company waives such defect) and not validly withdrawn, (b) promptly pay to DTC, on the Settlement Date, the Notes Consideration plus an amount equal to Accrued Interest thereon, for Notes that are tendered in the Offer and accepted for purchase and (c) pay on the Guaranteed Delivery Settlement Date, the Notes Consideration for such accepted Notes delivered pursuant to the guaranteed delivery procedures set forth below, plus an amount equal to the Accrued Interest thereon.

The Company reserves the right, subject to applicable laws, to (a) accept for purchase and pay for all of the Notes validly tendered at or prior to the Expiration Time with respect to the Offer and to keep the Offer open or extend the Expiration Time to a later date and time and (b) waive all conditions to the Offer for Notes tendered at or prior to the Expiration Time. Notes will be accepted for purchase in base denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof.

For purposes of the Offer, tendered Notes will be deemed to have been accepted for purchase, if, as and when the Company gives oral or written notice thereof to the Tender Agent. Payment for Notes accepted for purchase shall be made on the Settlement Date by the deposit of the aggregate Notes Consideration plus an amount equal to Accrued Interest thereon, in immediately available funds with DTC. Under no circumstances will additional interest on the Notes Consideration be paid by the Company after the Settlement Date by reason of any delay on the part of the guaranteed delivery procedures or the Tender Agent or DTC in making payment to Holders.

The Company expressly reserves the right, in its sole discretion and subject to Rule 14e-1(c) under the Exchange Act, to delay acceptance for purchase of or payment for Notes in order to comply, in whole or in part, with any applicable law. See “Terms of the Offer—Conditions to the Offer.” In all cases, payment by the Tender Agent or DTC to Holders or beneficial owners of the Notes Consideration for Notes purchased pursuant to the Offer will be made only after receipt by the Tender Agent of (i) a certificate representing the Notes or timely confirmation of a book-entry transfer of such Notes into the Tender Agent’s account at DTC pursuant to the procedures set forth under “Terms of the Offer—Procedure for Tendering Notes,” (ii) a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) or a properly transmitted Agent’s Message (as defined below) through ATOP and (iii) any other documents required by the Letter of Transmittal.

Tendering Holders will not be obligated to pay brokerage fees or commissions to the Dealer Manager, the Information Agent, the Tender Agent or the Company. The Company will pay or cause to be paid all transfer taxes with respect to the purchase of any Notes unless the box titled “Special Payment Instructions” or the box titled “Special Delivery Instructions” on the Letter of Transmittal has been completed, as described in the instructions thereto. If payment is to be made to, or if Notes not tendered or purchased are to be registered in the name of or delivered to, any persons other than the registered owners, or if tendered Notes are registered in the name of any persons other than the persons signing the Letter of Transmittal, the amount of any transfer taxes (whether imposed on the registered Holder or such other person) payable on account of the transfer to such other person will be deducted from the payment unless satisfactory evidence of the payment of such taxes or exemption therefrom is submitted.

The Company reserves the right to transfer or assign, in whole at any time or in part from time to time, to one or more affiliates, the right to purchase Notes tendered pursuant to the Offer, but any such transfer or assignment will not relieve the Company of its obligations under the Offer or prejudice the rights of tendering Holders to receive payment of the Notes Consideration, for Notes validly tendered pursuant to the Offer and accepted for purchase by the Company.

Procedure for Tendering Notes

The tender of Notes that are not validly withdrawn pursuant to this Offer and in accordance with the procedures described below will constitute a valid tender of Notes. Subject to the guaranteed delivery procedures described below, Holders will not be eligible to receive the Notes Consideration unless they validly tender their Notes (and do not validly withdraw their Notes) pursuant to this Offer at or prior to the Expiration Time. All Holders whose Notes are purchased pursuant to the Offer will also receive a cash amount equal to Accrued Interest thereon, if any.

The method of delivery of Notes, the Letter of Transmittal and the guaranteed delivery procedures, any required signature guarantees and all other required documents, including delivery through DTC and any acceptance of an Agent's Message transmitted through ATOP, is at the election and risk of the Holder tendering Notes and delivering the Letter of Transmittal, the Notice of Guaranteed Delivery or transmitting an Agent's Message and, except as otherwise provided in the Letter of Transmittal or the Notice of Guaranteed Delivery, delivery will be deemed made only when actually received by the Tender Agent. If delivery is by mail, it is suggested that the Holder use properly insured, registered mail with return receipt requested, and that the mailing be made sufficiently in advance of the Expiration Time to permit delivery to the Tender Agent at or prior to such time.. Manually signed facsimile copies of the Letter of Transmittal or the Notice of Guaranteed Delivery, properly completed and duly executed, will be accepted. **In no event shall the Holder send any Notes to the Dealer Manager, the Information Agent or the Company.**

Tender of Notes Held Through DTC. For a tender of Notes held of record by DTC to be valid and for a Holder to be eligible to receive payment for Notes that are tendered, the Notes must be delivered to the Tender Agent pursuant to the book-entry delivery procedures described below, and either:

- the Tender Agent must receive from the DTC participant in whose account the Notes are held at DTC, at the address of the Tender Agent set forth on the back cover of this Statement, a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof); or
- an acceptance of the Offer must be transmitted to the Tender Agent in accordance with DTC's ATOP procedures,

in each case at or prior to the Expiration Time or in accordance with the guaranteed delivery procedures described below.

A beneficial owner of Notes held through a custodian or nominee that is a direct or indirect DTC participant, such as bank, broker, trust company or other financial intermediary, must instruct the custodian or nominee to tender the beneficial owner's Note on behalf of the beneficial owner.

The Tender Agent and DTC have confirmed that the Offer is eligible for ATOP. Accordingly, DTC participants may electronically transmit their acceptance of the Offer by causing DTC to transfer Notes to the Tender Agent in accordance with DTC's ATOP procedures for transfer. DTC will then send an Agent's Message to the Tender Agent. Holders using ATOP must allow sufficient time for completion of the ATOP procedures during normal business hours of DTC at or prior to the Expiration Time. If the ATOP procedures are used, the DTC participant in whose account the Notes are held at DTC need not complete and physically deliver the Letter of Transmittal to the Tender Agent. Holders whose Notes are held through Clearstream or Euroclear must transmit their acceptance in accordance with the requirements of Clearstream and Euroclear in sufficient time for such tenders to be timely made prior to the Expiration Time. Holders should note that such clearing systems may require that action be taken a day or more prior to the Expiration Time.

The term "Agent's Message" means a message transmitted by DTC, received by the Tender Agent and forming part of the Book-Entry Confirmation (as defined below), which states that DTC has received an express acknowledgment from the DTC participant tendering Notes that are the subject of such Book-Entry Confirmation that such DTC participant has received and agrees to be bound by the terms of this Offer and the Letter of Transmittal and that the Company may enforce such agreement against such DTC participant.

Tender of Notes Held in Physical Form. For a Holder to validly tender Notes held in physical form pursuant to the Offer, a properly completed and validly executed Letter of Transmittal (or a manually signed facsimile thereof), together with any signature guarantees and any other documents required by the instructions to the Letter of Transmittal, must be received by the Tender Agent at its address set forth on the back cover of this Statement and either certificates for tendered Notes must be received by the Tender Agent at such address or such Notes must be transferred pursuant to the procedures for book-entry transfer described above and a confirmation of such book-entry transfer must be received by the Tender Agent, in either case, prior to the Expiration Time.

Guaranteed Delivery. If a Holder desires to tender Notes into the Offer and the Holder's Notes are not immediately available or the Holder cannot deliver the Notes to the Tender Agent before the Expiration Time, or the Holder cannot complete the procedure for book-entry transfer on a timely basis, or if time will not permit all required documents to reach the Tender Agent before the Expiration Time, the Holder may nevertheless tender the Notes, provided that the Holder satisfies all of the following conditions:

- the Holder makes the tender by or through an eligible guarantor institution;
- the amount tendered is in denominations of principal, or face, amount of \$1,000 at maturity or any integral multiple thereof, subject to a minimum permitted tender of \$2,000;
- the Tender Agent receives by mail, overnight courier or facsimile transmission, before the Expiration Time, a properly completed and duly executed notice of guaranteed delivery in the form we have provided (the "Notice of Guaranteed Delivery"), including (where required) a signature guarantee by an eligible guarantor institution in the form set forth in such Notice of Guaranteed Delivery; and
- the Tender Agent receives the Notes, in proper form for transfer, or confirmation of book-entry transfer of the Notes into the Tender Agent's account at the book-entry transfer facility, together with a properly completed and duly executed Letter of Transmittal, or a manually signed facsimile thereof, and including any required signature guarantees, or an Agent's Message, and any other documents required by the Letter of Transmittal, within two business days after the Expiration Date.

The Notes, or confirmation of book-entry transfer of the Notes, and the other documents referred to in the last bullet point above will be required to be provided by no later than 5:00 p.m., New York City time, on February 10, 2017 (the "Notice of Guaranteed Delivery Date"), which is two business days after the Expiration Time. The Guaranteed Delivery Settlement Date will take place on February 13, 2017.

FOR THE AVOIDANCE OF DOUBT, THE DELIVERY OF SUCH NOTES TENDERED BY GUARANTEED DELIVERY PROCEDURES WILL BE MADE NO LATER THAN 5:00 P.M., NEW YORK CITY TIME, ON THE SECOND BUSINESS DAY AFTER THE EXPIRATION TIME; PROVIDED, THAT ACCRUED INTEREST WILL CEASE TO ACCRUE ON THE SETTLEMENT DATE FOR ALL NOTES ACCEPTED IN THE OFFER, INCLUDING THOSE TENDERED BY THE GUARANTEED DELIVERY PROCEDURES SET FORTH ABOVE AND UNDER NO CIRCUMSTANCES WILL ADDITIONAL INTEREST ON THE NOTES CONSIDERATION BE PAID BY THE COMPANY AFTER THE SETTLEMENT DATE BY REASON OF ANY DELAY ON THE PART OF THE GUARANTEED DELIVERY PROCEDURES.

THE LETTER OF TRANSMITTAL, THE NOTES AND THE NOTICE OF GUARANTEED DELIVERY SHOULD BE SENT ONLY TO THE TENDER AGENT, AND NOT TO THE COMPANY, THE DEALER MANAGER, THE INFORMATION AGENT, THE TRUSTEE OR TO ANY BOOK-ENTRY TRANSFER FACILITY.

THE METHOD OF DELIVERY OF NOTES, THE LETTER OF TRANSMITTAL, THE NOTICE OF GUARANTEED DELIVERY AND ALL OTHER REQUIRED DOCUMENTS TO THE TENDER AGENT IS AT THE ELECTION AND RISK OF THE HOLDER TENDERING NOTES. DELIVERY OF SUCH DOCUMENTS WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE TENDER AGENT. IF SUCH DELIVERY IS BY MAIL, IT IS SUGGESTED THAT THE HOLDER USE

PROPERLY INSURED, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, AND THAT THE MAILING BE MADE SUFFICIENTLY IN ADVANCE OF THE EXPIRATION TIME TO PERMIT DELIVERY TO THE TENDER AGENT PRIOR TO SUCH DATE. NO ALTERNATIVE, CONDITIONAL OR CONTINGENT TENDERS OF NOTES WILL BE ACCEPTED.

Signature Guarantees. Signatures on the Letter of Transmittal must be guaranteed by a firm that is a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchange Medallion Program (a “Medallion Signature Guarantor”) (generally a member of a registered national securities exchange, a member of the Financial Industry Regulatory Authority, or a commercial bank or trust company having an office in the United States) (an “Eligible Institution”), unless (a) the Letter of Transmittal is signed by the registered Holder of the Notes tendered therewith (or by a participant in DTC whose name appears on a security position listing it as the owner of such Notes) and payment of the Notes Consideration is to be made, or if any Notes for principal amounts not tendered or not accepted for purchase are to be issued, directly to such Holder (or, if tendered by a participant in DTC, any Notes for principal amounts not tendered or not accepted for purchase are to be credited to such participant’s account at DTC) and neither the “Special Payment Instructions” box nor the “Special Delivery Instructions” box on the Letter of Transmittal has been completed, or (b) such Notes are tendered for the account of an Eligible Institution.

Book-Entry Transfer. The Tender Agent will establish a new account or utilize an existing account with respect to the Notes at DTC (DTC being a Book-Entry Transfer Facility) for purposes of the Offer promptly after the date of this Statement (to the extent such arrangements have not been made previously by the Tender Agent), and any financial institution that is a participant in DTC and whose name appears on a security position listing as the owner of the Notes may make book-entry delivery of Notes by causing DTC to transfer such Notes into the Tender Agent’s account in accordance with DTC’s procedures for such transfer. Delivery of documents to DTC in accordance with such Book-Entry Transfer Facility’s procedures does not constitute delivery to the Tender Agent. The confirmation of a book-entry transfer of Notes into the Tender Agent’s account at a Book-Entry Transfer Facility as described above is referred to herein as a “Book-Entry Confirmation.”

Other Matters. Notwithstanding any other provision hereof, payment for Notes accepted for purchase pursuant to the Offer will in all cases be made only after timely receipt by the Tender Agent of (i) a certificate representing the Notes or timely confirmation of a book-entry transfer of such Notes into the Tender Agent’s account at DTC pursuant to the procedures set forth under “Terms of the Offer—Procedure for Tendering Notes,” (ii) a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) or a properly transmitted Agent’s Message (as defined below) through ATOP, and (iii) any other documents required by the Letter of Transmittal.

Tenders of Notes pursuant to any of the procedures described above, and acceptance thereof by the Company for purchase, will constitute a binding agreement between the Company and the tendering Holder of the Notes, upon the terms and subject to the conditions to the Offer.

By executing a Letter of Transmittal or delivering an Agent’s Message, and subject to and effective upon acceptance for purchase of, and payment for, the Notes tendered therewith, a tendering Holder irrevocably sells, assigns and transfers to or upon the order of the Company all right, title and interests in and to all the Notes tendered thereby, waives any and all other rights with respect to the Notes and releases and discharges the Company from any and all claims such Holder may have now, or may have in the future, arising out of, or related to, the Notes, including without limitation any claims that such Holder is entitled to receive additional principal or interest payments with respect to the Notes or to participate in any redemption of the Notes.

All questions as to the form of all documents and the validity (including time of receipt) and acceptance of all tenders of Notes will be determined by the Company, in its sole discretion, the determination of which shall be conclusive and binding. Alternative, conditional or contingent tenders of Notes will not be considered valid. The Company reserves the right to reject any or all tenders of Notes that are not in proper form or the acceptance of which, in the Company’s opinion, would be unlawful. The Company also reserves the right to waive any defects, irregularities or conditions of tender as to particular Notes. A waiver of any defect or irregularity with respect to the tender of one Note shall not constitute a waiver of the same or any other defect or irregularity with respect to the tender of any other Note.

Any defect or irregularity in connection with tenders of Notes must be cured within such time as the Company determines, unless waived by the Company. Tenders of Notes shall not be deemed to have occurred until all defects and irregularities have been waived by the Company or cured. None of the Company, the Dealer Manager, the Tender Agent, the Information Agent, the Trustee or any other person will be under any duty to give notice of any defects or irregularities in tenders of Notes or will incur any liability to Holders for failure to give such notice.

Withdrawal of Tenders

Notes tendered may be withdrawn at any time at or prior to the Expiration Time, but not thereafter. In addition, tendered Notes may be withdrawn at any time after the 60th business day after the commencement of the Offer if for any reason the Offer has not been consummated within 60 business days after commencement. In the event of a termination of the Offer with respect to the Notes, such Notes will be credited to the account maintained at DTC from which such Notes were delivered or certificates for such Notes will be returned to such tendering Holders. In addition, the Company may, if it deems appropriate, extend the Expiration Time for any other reason. If the Company makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, the Company will disseminate additional Offer materials and extend the Offer to the extent required by law, provided that in the case of a material change to the terms of the Offer, the Offer will remain open at least three business days from the date the Company first gives notice to Holders, by public announcement via a press release through a widely disseminated news or wire service (or otherwise to the extent permitted by applicable law) prior to 10:00 a.m. New York City time on such day, of such material change. If the consideration to be paid in the Offer with respect to the Notes is increased or decreased, the Offer will remain open at least five business days from the date the Company first gives notice to Holders, by public announcement via a press release through a widely disseminated news or wire service (or otherwise to the extent permitted by applicable law) prior to 10:00 a.m. New York City time on such day, of such increase or decrease. In addition, the Company may, if it deems appropriate, extend the Offer for any other reason.

For a withdrawal of Notes tendered at or prior to the Expiration Time to be effective, a properly transmitted “Request Message” through ATOP or a notice of withdrawal must be delivered at or prior to the Expiration Time.

If Notes have been delivered under the procedures for book-entry transfer, any notice of withdrawal must specify the name and number of the account of the appropriate book-entry transfer facility’s to be credited with the withdrawn Notes and must otherwise comply with that book-entry transfer facility’s procedures. Any Notes validly withdrawn will be deemed to be not validly tendered for purposes of the Offer.

Any permitted withdrawal of Notes may not be rescinded, and any Notes validly withdrawn will thereafter be deemed not validly tendered for purposes of the Offer; provided, however, that validly withdrawn Notes may be re-tendered by again following one of the appropriate procedures described herein at any time at or prior to the Expiration Time.

If the Company extends the Offer or is delayed in its acceptance for purchase of Notes or is unable to purchase Notes pursuant to the Offer for any reason, then, without prejudice to the Company’s rights hereunder, tendered Notes may be retained by the Tender Agent on behalf of the Company and may not be withdrawn (subject to Rule 14e-l(c) under the Exchange Act, which requires that a company pay the consideration offered or return the securities deposited by or on behalf of the investor promptly after the termination or withdrawal of a tender offer), except as otherwise provided herein. All questions as to the validity, form and eligibility (including receipt) of notices of withdrawal of Notes will be determined by the Company, in its sole discretion (whose determination shall be final and binding). None of the Company, the Tender Agent, the Dealer Manager, the Information Agent, the Trustee or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal, or incur any liability for failure to give any such notification.

Changes in Ratings

The Company may from time to time approach the rating agencies in an effort to obtain more favorable ratings, including more favorable ratings for the Notes. While no assurance can be given that more favorable ratings will be obtained, if that does occur, it could have a favorable impact on the market price at which the Notes trade,

including increasing the market price for the Notes above the Notes Consideration. Should that occur, the Company will have no obligation to make any additional payments in respect of any such increase to Holders who tender their Notes and receive payment for Notes which are accepted all in accordance with the Offer terms.

OTHER PURCHASES OF NOTES

The Company currently expects to exercise its right to redeem any Notes not purchased in this Offer and that remain outstanding pursuant to the Indenture governing the Notes. In the event that the Company does not exercise its right to redeem the Notes, the Company reserves the absolute right, in its sole discretion, from time to time to purchase any Notes that remain outstanding after the Expiration Time through open market or privately negotiated transactions, one or more additional tender offers, or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the prices to be paid pursuant to the Offer or in a redemption.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain United States federal income tax consequences to U.S. Holders (as defined below) in connection with the Offer. This discussion is a general summary only and does not address all of the tax consequences that may be relevant to specific U.S. Holders in light of their particular circumstances. This discussion addresses only U.S. federal income tax consequences applicable to U.S. Holders who are beneficial owners of Notes and who hold such Notes as “capital assets” within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), and does not address consequences applicable to U.S. Holders who tender Notes pursuant to the Offer and also purchase notes pursuant to the Company’s concurrent debt securities offering or to special classes of Holders of Notes, such as Holders of Notes who are not U.S. Holders, banks, financial institutions or “financial services entities,” insurance companies, tax-exempt entities, regulated investment companies, real estate investment trusts, retirement plans, individual retirement or other tax-deferred accounts, dealers in securities or currencies, brokers, traders that mark-to-market their securities, expatriates and former long-term residents of the United States, partnerships, S corporations or other pass-through entities for U.S. federal income tax purposes, investors in partnerships, S corporations or other pass-through entities that hold the Notes, persons who hold their Notes as part of a straddle, hedge, conversion transaction or other integrated investment, U.S. Holders whose functional currency is not the U.S. dollar and persons subject to the alternative minimum tax. This discussion does not address any state, local or non-U.S. tax consequences or non-income tax consequences (such as U.S. federal estate and gift tax consequences). This discussion is based upon the provisions of the Code, Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or different interpretations. We have not sought any ruling from the Internal Revenue Service (the “IRS”) with respect to the statements made and conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

For purposes of the following discussion, a “U.S. Holder” is a beneficial owner of a Note that is, for U.S. federal income tax purposes: (i) an individual who is a U.S. citizen or resident alien, (ii) a corporation or other entity taxable as a corporation that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If an entity that is treated as a partnership for U.S. federal income tax purposes holds a Note, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Any partners of a partnership holding the Notes are urged to consult their own tax advisors regarding the tax consequences of the Offer.

U.S. Holders are urged to consult their own tax advisors as to the particular tax consequences applicable to them of the Offer, including the applicability of U.S. federal, state or local tax laws or non-U.S. or non-income tax laws, any changes in applicable tax laws and any pending or proposed legislation or regulations.

Tenders of Notes Pursuant to the Offer. In general, a U.S. Holder that receives cash in exchange for Notes pursuant to the Offer will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between (i) the amount of cash received in exchange for such Notes, excluding cash attributable to any Accrued Interest (which will be taxable as ordinary income to the extent not previously reported as income), and (ii) such U.S. Holder’s adjusted tax basis in such Notes at the time of the disposition.

Generally, a U.S. Holder’s adjusted tax basis for a Note will be equal to the cost of the Note to such U.S. Holder increased by any market discount (as defined below) previously included in income by such U.S. Holder pursuant to an election to include market discount in gross income currently as it accrues, and reduced by any amortizable bond premium which the U.S. Holder has previously deducted.

Subject to the market discount rules discussed below, any gain or loss so recognized generally will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder has held the Notes for more than one year at the time of disposition. Such gain or loss generally will be treated as income or loss from sources within the

U.S. for U.S. foreign tax credit purposes. A reduced tax rate on long-term capital gain may apply to individual and other non-corporate U.S. Holders. The deductibility of capital losses is subject to limitations.

An exception to the capital gain treatment described above may apply to a U.S. Holder that purchased a Note at a “market discount.” Subject to a statutory de minimis exception, market discount generally is the excess of the “stated redemption price” at maturity of such Note (generally, the principal amount of the Note) over the U.S. Holder’s tax basis in such Note immediately after its acquisition by such U.S. Holder. In general, unless the U.S. Holder has elected to include market discount in income currently as it accrues, any gain realized by a U.S. Holder on the sale or other disposition of a Note that has market discount will be treated as ordinary income (which will generally constitute foreign source income) to the extent of the market discount that has accrued (on a straight line basis or, at the election of the U.S. Holder, on a constant yield basis) while such Note was held by the U.S. Holder.

Backup Withholding and Information Reporting. In general, backup withholding and information reporting will apply to all payments made to a U.S. Holder pursuant to the Offer. U.S. federal income tax laws require that a U.S. Holder whose tendered Notes are accepted for purchase provide the withholding agent with such U.S. Holder’s correct taxpayer identification number (“TIN”), which, in the case of a U.S. Holder who is an individual, is generally his or her social security number, and certain other information and certifications, or otherwise establish a basis for exemption from backup withholding. Exempt U.S. Holders (including, among others, all C corporations) are not subject to these backup withholding and information reporting requirements. A U.S. Holder who does not provide the withholding agent with its correct TIN may be subject to penalties imposed by the IRS. If the withholding agent is not provided with the correct TIN or the required certifications and information, or an adequate basis for exemption, the U.S. Holder may be subject to a backup withholding tax imposed on the proceeds from the Offer at a current rate of 28%. If withholding results in an overpayment of taxes, the U.S. Holder generally may obtain a refund or credit if the required information is timely provided to the IRS.

Additional Tax on Net Investment Income. An additional 3.8% tax is imposed on the “net investment income” of certain U.S. citizens and resident aliens, and on the undistributed “net investment income” of certain estates and trusts, subject to certain limitations and exceptions. For these purposes, net investment income generally includes gross income from interest on the Notes and net gain realized by a U.S. Holder from a sale or other disposition of Notes.

This summary is of a general nature only and is not intended to be, and should not be interpreted as, legal or tax advice to any particular U.S. Holder. If you are considering a tender of Notes pursuant to the Offer, you are urged to consult with your own tax advisor concerning the U.S. federal income tax consequences in connection with the Offer in light of your particular circumstances and any consequences arising under other federal tax laws and the laws of any state, local or foreign taxing jurisdiction.

DEALER MANAGER, INFORMATION AGENT AND TENDER AGENT

In connection with the Offer, the Company has retained RBC Capital Markets, LLC to act on its behalf as Dealer Manager. Further, the Company has retained Global Bondholder Services Corporation to act as Information Agent and Tender Agent, which will receive customary fees for its services. The Company has agreed to reimburse each of the Dealer Manager, the Information Agent and the Tender Agent for its respective out-of-pocket expenses and to indemnify it against certain liabilities, including in certain cases liabilities under federal securities laws. In connection with the Offer, the Company will also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of the Offer and related documents to the beneficial owners of the Notes and in handling or forwarding tenders of Notes by their customers.

Any Holder that has questions concerning the terms of the Offer may contact the Dealer Manager at its addresses and telephone numbers set forth on the back cover of this Statement. Questions and requests for assistance or additional copies of this Statement, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent at its address and telephone number set forth on the back cover of this Statement. Beneficial owners may also contact their brokers, dealers, custodian banks, depositories, trust companies or other nominee for assistance concerning the Offer.

Letters of Transmittal and all correspondence in connection with the Offer should be sent or delivered to the Tender Agent at its address or to the facsimile number set forth on the back cover of this Statement. Any Holder or beneficial owner that has questions concerning tender procedures should contact the Tender Agent at its address and telephone number set forth on the back cover of this Statement.

The Dealer Manager may contact Holders of Notes regarding the Offer and may request brokers, dealers, custodian banks, depositories, trust companies and other nominees to forward this Statement and related materials to beneficial owners of Notes.

The Dealer Manager and its affiliates have from time to time provided certain commercial banking, financial advisory and investment banking services to the Company and its affiliates for which they have received customary fees. Affiliates of the Dealer Manager are lenders under the Company's revolving credit facility. In the ordinary course of its business, the Dealer Manager and its affiliates may at any time hold long or short positions, and may trade for their own account or the accounts of customers, in the debt or equity securities of the Company, including any of the Notes and, to the extent that the Dealer Manager and their affiliates own Notes during the Offer, they may tender such Notes pursuant to the terms of the Offer. The Dealer Manager and its affiliates may from time to time in the future engage in future transactions with the Company and its affiliates and provide services to the Company and its affiliates in the ordinary course of their respective businesses.

None of the Dealer Manager, the Information Agent or the Tender Agent assumes any responsibility for the accuracy or completeness of the information concerning the Company contained or incorporated by reference in this Statement or for any failure by the Company to disclose events that may have occurred and may affect the significance or accuracy of such information.

MISCELLANEOUS

No person has been authorized to give any information or make any representations other than those contained or incorporated by reference herein, in the Letter of Transmittal or in the Notice of Guaranteed Delivery and other materials, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, the Trustee, the Dealer Manager, the Information Agent, the Tender Agent or any other person. The statements made in this Statement are made as of the date on the cover page of this Statement and the statements incorporated by reference are made as of the date of the document incorporated by reference. The delivery of this Statement, the Letter of Transmittal and the Notice of Guaranteed Delivery shall not, under any circumstances, create any implication that the information contained herein or incorporated by reference is correct as of a later date.

Recipients of this Statement, the Letter of Transmittal or the Notice of Guaranteed Delivery should not construe the contents hereof or thereof as legal, business or tax advice. Each recipient should consult its own attorney, business advisor and tax advisor as to legal, business, tax and related matters concerning the Offer.

ANNEX A

**FINANCIAL STATEMENTS;
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following MD&A should be read in conjunction with our consolidated financial statements and the related notes included within this Annex A. This Annex A contains certain "forward-looking information" and "financial outlook" within the meaning of applicable Canadian securities laws and "forward-looking statements" within the meaning of the U.S. federal securities laws (collectively referred to as "**forward-looking statements**"). Such forward-looking statements have been provided to assist investors in understanding Trinidad's business and may not be appropriate for other purposes.

Statements that are not historical facts, but that address activities, events or developments that we expect or anticipate will or may occur in the future, including references to future goals or intentions or other such references, are forward-looking statements. The use of any of the words "expect," "anticipate," "continue," "estimate," "objective," "ongoing," "may," "will," "believe," "plans," "intends," "confident," "might" and similar expressions are intended to identify forward-looking statements. In particular, but without limiting the foregoing, this Annex A contains forward-looking statements pertaining to the following: the timing and completion of the offering; the anticipated manner in which Trinidad will use the proceeds of the offering described under "*Use of Proceeds*"; certain financial outlook for 2016 and 2017; the anticipated impact of the offering; outlook for operations; expectations respecting future industry and competitive conditions; industry activity levels; expectations respecting future financial results; and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance.

Various material factors, expectations and assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking statements throughout this Annex A. While Trinidad believes that the expectations and material factors and assumptions reflected in its forward-looking statements are reasonable as at the date hereof, there can be no assurance that any of these expectations, factors or assumptions will prove to be correct. In particular, in presenting its forward-looking statements, Trinidad has made assumptions respecting, among other things: that Trinidad will continue to upgrade rigs in a manner consistent with past practice and customer requests; that Trinidad's customers will honor their take-or-pay contracts; that inventory items and existing capacity will be sufficient to maintain Trinidad's fleet; that Trinidad will continue to be in a position to deploy its rigs in a manner consistent with past practice; the anticipated impact of new technology and advancements in drilling and completion techniques; future liquidity, debt levels and capital requirements; future industry conditions and general economic conditions; oil and gas supply and demand conditions in 2017; internal capital expenditure programs and other expenditures by oil and gas exploration and production companies; areas of industry activity and rig demand in such areas; regulatory and legislative conditions; commodity prices, in particular oil and natural gas; future expected cash flows and potential distributions from joint venture partners including Trinidad Drilling International Ltd.; foreign currency exchange rates and interest rates; and future performance and operations of joint ventures and partnership arrangements.

The forward-looking statements included in this Annex A are not a guarantee of future performance and should not be unduly relied upon. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: (i) volatility in market prices for oil, natural gas and liquefied natural gas; (ii) volatility in exchange rates for the Canadian dollar relative to other world currencies; (iii) liabilities and risks inherent in the drilling industry, including technical problems; (iv) competition for, among other things, capital, skilled personnel; (v) changes in general economic, market and business conditions in Canada, the U.S., the UAE, Mexico, Saudi Arabia and worldwide; (vi) actions by governmental or regulatory authorities (both domestic and foreign), including changes in tax laws and the risk of nationalization and expropriation of assets; (vii) the ability for the customers of Trinidad and its subsidiaries to raise capital and to continue with their drilling programs; (viii) the impact of adverse weather on the operations of Trinidad and its subsidiaries;

(ix) increases and overruns in construction costs; (x) political uncertainty and instability in North America and internationally and changes in political leadership in North America and elsewhere; (xi) volatility in interest and tax rates; (xii) operating risks inherent in the oilfield services industry; (xiii) variations in internal capital expenditure programs and other expenditure programs and other expenditures by oil and gas exploration and production companies; (xiv) volatility in supply and demand for commodities; and (xv) changes in general economic conditions including the capital and credit markets. The outcome and timing of the proposed offering may differ from that currently anticipated by Trinidad and regulatory approvals may not be obtained on the timelines anticipated or at all. While Trinidad intends to use the net proceeds from the offering in the manner stated herein, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in Trinidad's best interests. Should any one of a number of issues arise, Trinidad may also find it necessary to alter its current business strategy, capital expenditure and/or dividend program.

Trinidad cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. The forward-looking statements contained in this Annex A, including under the headings "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Use of Proceeds*," are expressly qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. These statements speak only as of the date of this Annex A. Neither Trinidad nor any of the initial purchasers undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities laws.

Profile

Trinidad is a corporation focused on sustainable growth that trades on the TSX under the symbol TDG. Trinidad's divisions currently operate in the drilling sector of the oil and natural gas industry, with operations in Canada, the U.S. and the UAE. In addition, through joint venture arrangements, Trinidad operates drilling rigs in Saudi Arabia and Mexico, and is currently assessing operations in other international markets. Trinidad is focused on providing modern, reliable, expertly designed equipment operated by well-trained and experienced personnel. Trinidad believes that its drilling fleet is one of the most adaptable, technologically advanced and competitive in the industry.

Recent Developments

On January 17, 2017, the Company announced its intention to spend approximately \$40 million in capital expenditures in 2017, comprised of anticipated maintenance capital of approximately \$18 million and select upgrade projects totaling approximately \$22 million. It is anticipated that the budgeted maintenance capital will be used to re-certify existing equipment and replenish drill pipe inventory, as a growing number of rigs return to work. With respect to the remainder of the Company's budgeted capital expenditures for 2017, upgrade projects are planned for eight rigs, four in Canada and four in the United States. These projects include increasing the pressure capacity of mud circulating systems, adding mud pumps and high-torque top drives, and making certain bi-fuel upgrades. Trinidad expects to utilize its existing inventory items to maintain its fleet in 2017. Trinidad continues to evaluate a number of opportunities in its joint venture; however, at this time there are no planned capital expenditures for the joint venture operations in 2017.

With respect to its recent operations, on January 17, 2017 Trinidad also announced that, as at that date, it had 53% of its Canadian fleet (38 rigs) operating, up from an average of 20% during the third quarter of 2016. Demand remains strongest in the Montney and the Deep Basin, with a growing number of rigs also operating in Saskatchewan. Also as at January 17, 2017, in the Company's U.S. and international division, 36% of the U.S. and international fleet (24 rigs) were operating, up from an average of 19% during the third quarter of 2016. The Permian Basin continues to be the strongest area of demand, with 75% of the active U.S. fleet operating in this basin. In addition, the Company currently has rigs operating in the Eagle Ford and Haynesville Shales.

As activity has grown over the past few months, the Company is beginning to see opportunities to increase day rates, particularly in the U.S. and for specific, high-performance rigs. Trinidad has taken advantage of improving industry conditions and added four new long-term contracts to its contract base. These contracts range in term from 18 months to two years and bring the Company's overall contract base to 29 rigs or 19% of the fleet, with an average term remaining of 1.3 years. Of the current contract base, 12 expire during 2017. Given the current industry fundamentals and future outlook, Trinidad expects to be in a position to renew contracts over the coming year.

On January 17, 2017, three rigs in Saudi Arabia were operating with a fourth rig receiving standby revenue. In Mexico, one rig recently returned to work and three rigs continue to receive standby revenue. At September 30, 2016, the joint venture had approximately \$68 million (\$41 million Trinidad's share) of cash on hand. Trinidad and its joint venture partner anticipate that future cash distributions will be made to the partners, depending on working capital and capital expenditure requirements within the joint venture.

To date, Trinidad has successfully crewed its rigs as they have gone back to work, despite a high level of rig reactivations in a short period of time. As part of this rig reactivation process, Trinidad has remained focused on ensuring the training and safety of its crews meets its usual high levels and the Company has continued to record excellent operational and safety performance.

Seasonality

Trinidad operates a substantial number of rigs in western Canada; therefore, operations are impacted by weather and seasonal factors. The winter season is typically a busy period as oil and natural gas companies take advantage of frozen ground conditions to move drilling rigs into regions that might otherwise be inaccessible to heavy equipment due to swampy conditions. Springtime normally encompasses a slow period referred to as spring break-up. During this period, melting conditions result in temporary municipal road bans that effectively prohibit the movement of drilling rigs. The remainder of the year is usually representative of average activity levels.

Trinidad's expansion to the U.S. and international markets has reduced its overall exposure to the seasonal factors that are present in its Canadian operations. These seasonal conditions typically limit Canadian drilling activity, whereas in the U.S. and international areas, operators have more flexibility to work throughout the year. The activity in the U.S. and Internationally has allowed Trinidad to better manage its business with more sustainable cash flows throughout the annual cycle. However, industry conditions have an effect on how seasonality effects Trinidad's activity.

Non-IFRS Measures Definitions

This Annex A contains references to certain financial measures and associated per share data that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. These financial measures are computed on a consistent basis for each reporting period and include: Adjusted EBITDA, Adjusted EBITDA from investment in joint ventures, working capital, Senior Debt to Bank EBITDA, Bank EBITDA to Cash Interest Expense, drilling days, operating days, utilization rate — drilling day, utilization rate — operating day, and rate per operating day or dayrate. These non-IFRS measures are identified and defined as follows:

“Adjusted EBITDA” is used by management and investors to analyze the Company's profitability based on the Company's principal business activities prior to how these activities are financed, how assets are depreciated and amortized and how the results are taxed in various jurisdictions. Additionally, in order to focus on the core business alone, amounts are removed related to foreign exchange, share-based payment expense, impairment expenses the sale of assets, and fair value adjustments on financial assets and liabilities, as the Company does not deem these to relate to the core drilling business. Adjusted EBITDA also takes into account the Company's portion of the principal activities of the joint venture arrangements by removing the (gain) loss from investment

in joint ventures and including Adjusted EBITDA from investment in joint ventures. Adjusted EBITDA is not intended to represent net (loss) income as calculated in accordance with IFRS. Adjusted EBITDA is calculated using 100% of the related amounts from all entities controlled by Trinidad where Trinidad may not hold 100% of the outstanding shares.

Adjusted EBITDA is calculated as follows:

(CDN\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net (loss) earnings	(36,053)	(87,618)	(41,535)	(76,955)
Plus:				
Finance and transaction costs	12,380	17,947	39,779	42,267
Depreciation and amortization	42,317	26,648	128,043	69,953
Income taxes	(10,342)	(56,089)	(24,249)	(55,167)
	8,302	(99,112)	102,038	(19,902)
Plus:				
Gain on sale of property and equipment	(8,647)	(635)	(10,575)	(2,119)
Impairment of property and equipment	—	26,937	—	26,937
Impairment of goodwill	—	111,847	—	111,847
Share-based payment expense	265	(2,202)	5,016	(473)
Foreign exchange	(340)	3,318	(2,676)	9,517
Non-controlling interest fair value adjustment	(5,944)	—	(5,944)	—
Loss (gain) from investment in joint venture	18,497	(2,824)	6,730	(4,741)
Plus:				
Adjusted EBITDA from investment in joint ventures	5,857	7,624	24,644	18,594
Adjusted EBITDA	17,990	44,953	119,233	139,660

(CDN\$ thousands)	For the years ended December 31,	
	2015	2014
Net (loss) earnings	(218,346)	6,596
Plus:		
Finance and transaction costs	55,851	39,531
Depreciation and amortization	118,900	125,012
Income taxes	(121,776)	4,076
EBITDA	(165,371)	175,215
Plus:		
Gain on sale of property and equipment	(1,571)	(8,238)
Impairment of property and equipment	205,628	77,535
Impairment of goodwill	111,847	—
Share-based payment expense	(208)	765
Foreign exchange	7,172	5,017
Loss/gain from investment in joint venture	1,530	(19)
Plus:		
Adjusted EBITDA from investment in joint ventures	27,719	1,771
Adjusted EBITDA	186,746	252,046

(CDN\$ thousands)	For the years ended December 31,	
	2014	2013
Net earnings	6,596	70,952
Plus:		
Finance costs	39,531	42,368
Depreciation and amortization	125,012	117,067
Income taxes	4,076	24,834
	175,215	255,221
Plus:		
(Gain) loss on sale of property and equipment	(8,238)	1,341
Impairment of property and equipment	77,535	131
Impairment of intangible assets and goodwill	—	—
Share-based payment expense	765	12,410
Foreign exchange	5,017	1,342
(Gain) loss from investment in joint venture	(19)	768
Plus:		
Adjusted EBITDA from investment in joint venture	1,771	(768)
Adjusted EBITDA	252,046	270,445

“Adjusted EBITDA from investment in joint ventures” is used by management and investors to analyze the results generated by the Company’s Joint Venture Operations prior to how these activities are financed, how assets are depreciated and amortized and how the results are taxed in various jurisdictions. Additionally, in order to focus on the core drilling business, amounts related to foreign exchange, share-based payment expense, impairment adjustments to property and equipment as well as preferred shares and the sale of assets are removed. Lastly, amounts recorded for the revaluation on the investment of the TDI-JV are removed as these are non-cash entries and unrelated to the operations of the business. Adjusted EBITDA from investment in joint ventures is not intended to represent net (loss) income as calculated in accordance with IFRS.

Adjusted EBITDA from investment in joint ventures is calculated as follows:

(CDN\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Gain from investment in joint ventures	(18,497)	2,824	(6,730)	4,741
Plus:				
Finance costs	346	188	1,166	408
Depreciation and amortization	5,902	4,142	15,583	11,002
Income taxes	(491)	752	2,758	2,305
	(12,740)	7,906	12,777	18,456
Plus:				
Loss (gain) on sale of property and equipment	(5)	—	(4)	—
Impairment of property and equipment	—	—	—	—
Preferred share valuation	(1,204)	—	(15,804)	—
Dividend expense	—	—	14,891	—
TDI investment fair value adjustment	19,548	—	12,141	—
Foreign exchange	258	(282)	643	138
Adjusted EBITDA from investment in joint ventures	5,857	7,624	24,644	18,594

(CDN\$ thousands)	For the years ended December 31,	
	2015	2014
Gain from investment in joint ventures	(1,530)	19
Plus:		
Finance costs	630	34
Depreciation and amortization	16,116	2,916
Income taxes	2,202	(1,449)
EBITDA from investment in joint ventures	17,418	1,520
Plus:		
Loss (gain) on sale of property and equipment	377	—
Impairment of property and equipment	—	—
Preferred share valuation	16,282	—
TDI investment fair value adjustment	(7,517)	—
Foreign exchange	1,159	251
Adjusted EBITDA from investment in joint ventures	27,719	1,771

For the years ended December 31, (CDN\$ thousands)	For the years ended December 31,	
	2014	2013
Gain (loss) from investment in joint venture	19	(768)
Plus:		
Finance costs	34	—
Depreciation and amortization	2,916	—
Income taxes	(1,449)	—
	1,520	(768)
Plus:		
Loss (gain) on sale of property and equipment	—	—
Impairment of property and equipment	—	—
Impairment of intangible assets and goodwill	—	—
Share - based payment expense	—	—
Foreign exchange	251	—
Adjusted EBITDA from investment in joint venture	1,771	(768)

“Working capital” is used by management and the investment community to analyze the operating liquidity available to the Company.

Working capital is derived from the consolidated statements of financial positions and is calculated as follows:

As At (CDN\$ thousands)	September 30, 2016	December 31, 2015
Current assets	112,371	194,859
Less:		
Current liabilities	65,917	133,487
Working capital	46,454	61,372

<u>As At</u> <u>(CDN\$ thousands)</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Current assets	194,859	344,185
Less:		
Current liabilities	133,487	177,683
Working capital	61,372	166,502
 <u>(CDN\$ thousands)</u>	 <u>December 31,</u> <u>2014</u>	 <u>December 31,</u> <u>2013</u>
Current assets	344,185	452,433
Less		
Current liabilities	177,683	149,313
Working capital	166,502	303,120

“Senior Debt to Bank EBITDA” is defined as the consolidated balance of the revolving facility and other debt secured by a lien at quarter end to consolidated Bank EBITDA for the trailing 12 months (**“TTM”**). Bank EBITDA used in this financial ratio is calculated as net earnings before interest, taxes, depreciation and amortization, plus impairment expense, loss (gain) on sale of assets, loss (gain) from investment in joint ventures, share-based payment expense and unrealized foreign exchange. Bank EBITDA also includes all distributions received from the Company’s joint ventures during the period.

“Bank EBITDA to Cash Interest Expense” is defined as the consolidated Bank EBITDA for TTM to the cash interest expense on all debt balances for TTM. Bank EBITDA used in this financial ratio is calculated as net earnings before interest, taxes, depreciation and amortization, plus impairment expense, loss (gain) on sale of assets, loss (gain) from investment in joint ventures, share-based payment expense and unrealized foreign exchange. Bank EBITDA also includes all distributions received from the Company’s joint ventures during the period.

“Drilling days” is defined as rig days between spud to rig release.

“Operating days” is defined as moving days (move in, rig up and tear out) plus drilling days (spud to rig release).

“Utilization rate — drilling day” is defined as drilling days divided by total available rig days.

“Utilization rate — operating day” is defined as operating days divided by total available rig days.

“Rate per operating day” or **“Dayrate”** is defined as operating revenue (net of third party costs) divided by operating days (drilling days plus moving days).

Additional IFRS Measures Definitions

To assess performance, the Company uses certain additional IFRS financial measures within its financial statements and MD&A that are not defined terms under IFRS. Management believes that these measures provide useful supplemental information to investors, and provide the reader a more accurate reflection of our industry. These financial measures are computed on a consistent basis for each reporting period and include Operating revenue or Revenue, net of third party costs, Funds provided by operations, Operating income, Operating income percentage and Operating income — net percentage. These additional IFRS measures are defined as follows:

“Operating revenue” or **“Revenue, net of third party costs”** is defined as revenue earned for drilling activities excluding all third party revenues. Third party revenues mainly consist of rental activities and other services

provided by third parties for which Trinidad does not earn a mark-up on. This metric is used by analysts and investors to assess the operations of each segment based on the core drilling business alone and more accurately reflects the health of those operations. The operating revenue for each reportable segment is disclosed in the segmented information included in the consolidated financial statements.

“Cash provided by operations” is calculated as per the IFRS definition of cash flows from operating activities and is used by management and investors to analyze the funds generated by Trinidad’s principal business activities. This balance is reported in the consolidated statements of cash flows included in the cash provided by operating activities section.

“Operating income” is used by management and investors to analyze overall and segmented operating performance. Operating income is not intended to represent an alternative to net (loss) earnings or other measures of financial performance calculated in accordance with IFRS. Operating income is calculated from the consolidated statements of operations and comprehensive income and from the segmented information contained in the notes to the consolidated financial statements. Operating income is defined as revenue less operating expenses.

“Operating income percentage” is used by management and investors to analyze overall and segmented operating performance, including third party recovery and third party costs, as well as inter-segment revenue and inter-segment operating costs. Operating income percentage is calculated from the consolidated statements of operations and comprehensive income and from the segmented information in the notes to the consolidated financial statements. Operating income percentage is defined as operating income divided by revenue.

“Operating income — net percentage” is used by management and investors to analyze overall and segmented operating performance excluding third party recovery and third party costs, as well as inter-segment revenue and inter-segment operating costs, as these revenue and expenses do not have an effect on consolidated net (loss) earnings. Operating income — net percentage is calculated from the consolidated statements of operations and comprehensive income and from the segmented information in the notes to the consolidated financial statements. Operating income — net percentage is defined as operating income less third party general and administrative (“G&A”) expenses divided by revenue net of operating and G&A third party costs.

Industry Statistics

	2016			Full Year	2015			
	Q3	Q2	Q1	2015	Q4	Q3	Q2	Q1
Commodity Prices								
Aeco natural gas price (CDN\$ per gigajoule)	2.35	1.43	1.81	2.57	2.35	2.76	2.54	2.60
Henry Hub natural gas price (US\$ per mmBtu)	2.88	2.15	1.99	2.61	2.11	2.75	2.73	2.87
Western Canada Select crude oil price (CDN\$ per barrel)	40.17	42.35	36.79	45.26	37.05	41.22	59.40	43.52
WTI crude oil price (US\$ per barrel)	45.00	45.73	33.78	48.68	42.02	46.48	57.85	48.49
Canadian / US dollar exchange rate	1.30	1.29	1.37	1.28	1.34	1.31	1.23	1.24
US Activity								
Average industry active land rig count ⁽¹⁾	457	394	533	983	757	829	935	1,403
Average Trinidad active land rig count ⁽²⁾	14	15	19	27	26	26	24	30
Canadian Activity								
Average industry utilization ⁽³⁾	17%	7%	20%	23%	21%	24%	13%	35%
Average Trinidad utilization ⁽⁴⁾	20%	10%	29%	29%	28%	32%	7%	46%

	Full Year	2014				Full Year	2013			
	2014	Q4	Q3	Q2	Q1	2013	Q4	Q3	Q2	Q1
Commodity Prices										
Aeco natural gas price (CDN\$ per gigajoule)	4.28	3.44	3.82	4.45	5.34	3.01	3.33	2.32	3.36	3.03
Henry Hub natural gas price (US\$ per mmBtu)	4.36	3.76	3.94	4.59	5.15	3.72	3.84	3.55	4.01	3.47
Western Canada Select crude oil price (CDN\$ per barrel)	82.00	65.42	85.68	91.34	85.81	75.84	69.62	86.31	79.25	67.64
WTI crude oil price (US\$ per barrel)	93.06	73.21	97.60	103.06	98.72	98.01	97.56	105.82	94.14	94.30
Canadian / US dollar exchange rate	1.10	1.14	1.09	1.09	1.10	1.03	1.05	1.04	1.02	1.01
US Activity										
Average industry active land rig count ⁽¹⁾	1,789	1,843	1,828	1,781	1,705	1,685	1,679	1,687	1,686	1,687
Average Trinidad active land rig count ⁽²⁾	50	52	53	47	48	50	49	51	50	49
Canadian Activity										
Average industry utilization ⁽³⁾	44%	45%	46%	28%	58%	40%	43%	37%	18%	58%
Average Trinidad utilization ⁽⁴⁾	52%	57%	61%	24%	68%	48%	48%	50%	24%	73%

Notes:

- (1) Baker Hughes rig counts (information obtained from Tudor, Pickering, Holt & Co. weekly rig roundup report).
- (2) Includes U.S. and international rigs.
- (3) Canadian Association of Oilwell Drilling Contractors (“CAODC”) utilization.
- (4) Based on drilling days (spud to rig release dates).

Crude oil prices stabilized and natural gas prices continued to improve in the third quarter of 2016, leading to an improvement in sentiment among oil and gas industry participants and a gradually increasing active rig count from historic lows. Crude oil prices stayed within a band of US\$40 to US\$50 per barrel during the third quarter of 2016 and ended the quarter at US\$48.24 per barrel. On average, WTI crude oil was US\$45 per barrel in the third quarter of 2016, down 3% from the same quarter of 2015, but up 33% from the first quarter of 2016.

U.S.-based natural gas prices increased in the third quarter of 2016, with Henry Hub natural gas averaging US\$2.88 per mmBtu, up 5% from the same quarter of 2015, and up 45% from the first quarter of 2016.

Industry activity levels began to increase towards the end of the second quarter of 2016. In the US, the active rig count bottomed at 391 active rigs in late April of 2016, but increased steadily to reach 497 active rigs by the end of the third quarter of 2016. In Canada, industry activity averaged 17% in the third quarter of 2016, down from 24% in the same quarter of 2015 and up from 7% in the second quarter of 2016. Wet weather conditions in parts of Canada combined with ongoing weak customer demand drove a slower ramp up out of spring break up than in the previous year.

Three and Nine Months Ended September 30, 2016 Compared to Three and Nine Months Ended September 30, 2015

FINANCIAL HIGHLIGHTS

	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
(CDN\$ thousands)	<u>2016</u>	<u>2015</u>	<u>% Change</u>	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Revenue	66,960	124,285	(46.1)	269,086	413,894	(35.0)
Revenue, net of third party costs ⁽¹⁾	63,362	117,824	(46.2)	257,324	393,895	(34.7)
Operating income ⁽¹⁾	22,979	52,009	(55.8)	131,337	166,187	(21.0)
Operating income percentage ⁽¹⁾	34.3%	41.8%	(17.9)	48.8%	40.2%	21.4
Operating income – net percentage ⁽¹⁾	35.9%	43.9%	(18.2)	50.7%	41.9%	21.0
Adjusted EBITDA ⁽¹⁾	17,990	44,953	(60.0)	119,233	139,660	(14.6)
Cash provided by operations	(7,757)	(5,640)	(37.5)	38,293	108,909	(64.8)
Net (loss) ⁽²⁾	(35,780)	(87,540)	59.1	(40,733)	(76,877)	47.0
Capital expenditures ⁽¹⁾	13,682	21,628	(36.7)	38,345	113,556	(66.2)

Notes:

- (1) See “*Non-IFRS Measures Definitions*” and “*Additional IFRS Measures Definitions*” above for further details.
- (2) Net (loss) is net (loss) attributable to shareholders of Trinidad. Net (loss) per share is calculated as net (loss) attributable to shareholders of Trinidad divided by the weighted average number of common shares outstanding, both adjusted for dilutive factors.

OPERATING HIGHLIGHTS

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Land Drilling Market						
Operating days ⁽¹⁾						
Canada	1,411	2,109	(33.1)	4,077	4,832	(15.6)
United States and International	1,307	2,199	(40.6)	3,955	7,096	(44.3)
Rate per operating day ⁽¹⁾						
Canada (CDN\$)	18,856	23,695	(20.4)	23,696	25,330	(6.5)
United States and International (CDN\$)	27,975	30,223	(7.4)	39,376	32,269	22.0
United States and International (US\$)	21,557	23,582	(8.6)	29,779	26,160	13.8
Utilization rate — operating day ⁽¹⁾						
Canada	21%	34%	(38.2)	21%	31%	(32.3)
United States and International	21%	40%	(47.5)	22%	49%	(55.1)
Number of drilling rigs at period end ⁽⁴⁾						
Canada	72	82	(12.2)	72	82	(12.2)
United States and International	67	72	(6.9)	67	72	(6.9)
TDI Joint Venture Operations ⁽²⁾						
Operating days ⁽¹⁾	274	595	(53.9)	1,425	1,521	(6.3)
Rate per operating day (CDN\$) ⁽¹⁾	87,127	59,609	46.2	71,712	60,416	18.7
Rate per operating day (US\$) ⁽¹⁾	67,133	46,591	44.1	53,609	48,536	10.5
Utilization rate — operating day ⁽¹⁾	37%	99%	(62.6)	65%	96%	(32.3)
Number of drilling rigs at period end ⁽⁴⁾	8	8	—	8	8	—

Notes:

- (1) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions” for further details.
- (2) Trinidad is party to a joint venture with a wholly-owned subsidiary of Halliburton. These rigs are owned by the joint venture.
- (3) Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results from Operations” for details on the changes to the rig count.

Overview

During the third quarter of 2016, Trinidad saw a gradual improvement in industry conditions as crude oil prices stabilized above US\$40 per barrel, natural gas prices improved and customer inquiry levels increased. Despite these positive changes, operating and financial results were largely lower on a year-over-year basis.

Adjusted EBITDA decreased in the third quarter of 2016 largely due to lower activity levels than in the third quarter of 2015. On a year-to-date basis in 2016, the impact of lower activity was partly offset by higher early termination and standby revenue than in 2015.

Third Quarter and First Nine Months of 2016 Highlights Versus 2015 Periods

- Revenue lowered in the third quarter of 2016 and the first nine months of 2016 as a result of lower activity levels. On a year-to-date basis, lower activity was partly offset by higher early termination and standby revenue. As well, in the third quarter of 2016, Trinidad recorded a full quarter of operations with the acquired CanElson rigs, compared to approximately half a quarter in 2015. The acquired rigs contributed strongly to activity levels in the current periods.
- Operating days lowered in the third quarter and the first nine months of 2016 across the Company’s operations as industry conditions remained weaker than the same periods in 2015 and fewer rigs operated under long-term contracts.

- In the Canadian operations, dayrates lowered in each of the third quarter of 2016 and the first nine months of 2016 periods as a result of strong competition and a change in the active rig mix. In the first nine months of 2016, this was partly offset by higher early termination and standby revenue recorded in 2016.
- In the U.S. and International Drilling Operations, dayrates decreased in the third quarter of 2016 compared to the prior year of 2015 due to a change in the active rig mix and increased competition on pricing. In the first nine months of 2016, dayrates increased in 2016 compared to 2015 due to higher early termination and standby revenue recorded in 2016.
- Operating income and operating income — net percentage lowered in the third quarter of 2016 as the impact of Trinidad's cost cutting measures was more than offset by lower income generation in the current period of 2016. In the first nine months of 2016, operating income lowered but operating income — net percentage increased over the prior year as higher early termination and standby revenue recorded, with no associated costs, increased profitability in 2016.
- General and administrative costs lowered both in the third quarter and in the first nine months of 2016, reflecting the Company's focus on cost control.
- Adjusted EBITDA decreased in the third quarter and in the first nine months of 2016, mainly due to less activity across each of Trinidad's Canadian and U.S. and international operations; partly offset by higher early termination and standby revenue recognized in the first nine months of 2016 compared to the prior year.
- Adjusted EBITDA from the Company's Joint Venture Operations lowered in the third quarter of 2016 as a result of lower activity levels in Mexico. In the first nine months of 2016, Adjusted EBITDA from the joint venture increased as the Company recorded higher dayrates and had more rigs operating in its Mexican operations compared to the first nine months of 2015.
- Net income increased in both the third quarter and in the first nine months of 2016 mainly due to lower impairment expense recorded in the current year and a larger gain on sale of assets. This was slightly offset by higher depreciation and amortization expenses, a lower deferred tax recovery and a larger loss from investment in joint ventures. The loss from joint ventures was largely due to a non-cash fair value adjustment.

Results from Operations

Canadian Operations

(CDN\$ thousands except percentage and operating data)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Operating revenue ⁽¹⁾	26,603	50,981	(47.8)	97,903	123,412	(20.7)
Other revenue	134	142	(5.6)	491	215	128.4
	26,737	51,123	(47.7)	98,394	123,627	(20.4)
Operating costs ⁽¹⁾	18,816	29,604	(36.4)	56,470	73,201	(22.9)
Operating income ⁽³⁾	7,921	21,519	(63.2)	41,924	50,426	(16.9)
Operating income — net percentage ⁽³⁾	29.6%	42.1%		42.6%	40.8%	
Operating days ⁽³⁾	1,411	2,109	(33.1)	4,077	4,832	(15.6)
Drilling days ⁽³⁾	1,310	1,987	(34.1)	3,813	4,471	(14.7)
Rate per operating day (CDN\$) ⁽³⁾	18,856	23,695	(20.4)	23,696	25,330	(6.5)
Utilization rate — operating day ⁽³⁾	21%	34%	(38.2)	21%	31%	(32.3)
Utilization rate — drilling day ⁽³⁾	20%	32%	(37.5)	19%	29%	(34.5)
CAODC industry average ⁽²⁾	17%	24%	(29.2)	15%	24%	(37.5)
Number of drilling rigs at period end	72	82	(12.2)	72	82	(12.2)

Notes:

- (1) Operating revenue and operating costs for the three months ended September 30, 2016 and 2015 exclude third party recovery and third party costs of \$2.5 million and \$4.5 million, respectively. Operating revenue and operating costs for the nine months ended September 30, 2016 and 2015 exclude third party recovery and third party costs of \$7.6 million and \$12.4 million, respectively.
- (2) CAODC industry average is based on drilling days divided by total days available.
- (3) See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*” above for further details.

Operating revenue lowered in the third quarter and in the first nine months of 2016 when compared to the same periods of 2015. Lower revenue generation in the third quarter and first nine months of 2016 was largely driven by fewer operating days and lower dayrates. The impact of these factors was partly offset by the positive contribution from the acquired CanElson rigs over the first nine months of 2016, compared to half a quarter in 2015.

Operating days lowered in the third quarter and in the first nine months of 2016 as a result of weaker customer demand. Although commodity prices began to show signs of improvement during the third quarter of 2016, Trinidad’s customers were reluctant to ramp up development plans, and activity in Canada remained below historical industry norms. Despite these weak industry conditions, Trinidad recorded higher utilization in the third quarter and in the first nine months of 2016 than the industry average. This industry outperformance was driven largely by the Company’s heavy double rigs, which generated approximately 70% of the operating days in Canada in both the third quarter and in the first nine months 2016.

Dayrates decreased by \$4,839 per day in the third quarter of 2016 and \$1,634 per day in the first nine months of 2016, compared to the same periods in 2015. Dayrates lowered in 2016 as a result of a change in the active rig mix and increased competition for work. In addition, dayrates in 2015 and 2016 were impacted by early termination and standby revenue received to compensate Trinidad for shortfall days. The early termination and standby revenue recorded in 2016 mainly related to five rigs with contracts that would have expired by September 30, 2016.

Trinidad received early termination and standby revenue in the third quarter of \$0.2 million (2015 — \$1.2 million) and in the first nine months 2016 of \$9.7 million (2015—\$1.5 million). Excluding early termination

and standby revenue, dayrates averaged \$18,710 per day in the third quarter of 2016 and \$21,317 per day in the first nine months 2016, down \$4,436 per day and \$3,705 per day, respectively, from the prior comparable periods. A higher proportion of heavy doubles operating in the current periods drove lower average dayrates in 2016.

Operating income decreased in the third quarter of 2016 and in the first nine months of 2016 compared to the same periods in 2015. Throughout 2015 and into 2016, Trinidad closely monitored repair and maintenance expenditures, and incurred expenses only as rigs returned to work. As well, the Company worked with its suppliers to reduce costs in all aspects of its operations. However, intense competition combined with an increased contribution from lower specification rigs caused a decrease in overall profitability in 2016.

Operating income — net percentage decreased in the third quarter of 2016 when compared to the same quarter of 2015 as a result of the factors affecting operating income discussed above. In the first nine months of 2016, the impact of these factors was partly offset by higher early termination and standby revenue received, compared to the same period in 2015.

Trinidad's Canadian rig count totaled 72 rigs at September 30, 2016, a decrease of 10 rigs compared to the third quarter of 2015. At December 31, 2015, Trinidad reviewed the existing rig fleet and chose to decommission 10 low specification rigs.

United States and International Operations

(CDN\$ thousands except percentage and operating data)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Operating revenue ⁽¹⁾	36,570	66,454	(45.0)	155,746	230,744	(32.5)
Other revenue	55	87	(36.8)	266	472	(43.6)
	36,625	66,541	(45.0)	156,012	231,216	(32.5)
Operating costs ⁽¹⁾	21,778	35,526	(38.7)	66,381	118,614	(44.0)
Operating income ⁽³⁾	14,847	31,015	(52.1)	89,631	112,602	(20.4)
Operating income — net percentage ⁽³⁾	40.5%	46.6%		57.5%	48.7%	
Land Drilling Rigs						
Operating days ⁽²⁾	1,307	2,199	(40.6)	3,955	7,096	(44.3)
Drilling days ⁽²⁾	1,159	1,964	(41.0)	3,404	6,168	(44.8)
Rate per operating day (CDN\$) ⁽²⁾	27,975	30,223	(7.4)	39,376	32,269	22.0
Rate per operating day (US\$) ⁽²⁾	21,557	23,582	(8.6)	29,779	26,160	13.8
Utilization rate — operating day ⁽²⁾	21%	40%	(47.5)	22%	49%	(55.1)
Utilization rate — drilling day ⁽²⁾	19%	35%	(45.7)	19%	43%	(55.8)
Number of drilling rigs at period end	67	72	(6.9)	67	72	(6.9)

Notes:

- (1) Operating revenue and operating costs for the three months ended September 30, 2016 and 2015 exclude third party recovery and third party costs of \$0.9 million and \$1.6 million, respectively. Operating revenue and operating costs for the nine months ended September 30, 2016 and 2015 exclude third party recovery and third party costs of \$3.2 million and \$6.5 million, respectively.
- (2) See "Management's Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions" for further details.

Operating revenue lowered in the third quarter of 2016 and in the first nine months of 2016, compared to the same periods last year, largely as a result of lower operating days. Higher early termination and standby revenue

recorded in the first nine months of 2016, as well as a strong US to Canadian foreign exchange rate, partially offset the impact of reduced activity. For the three and nine months ended September 30, 2016, operating days and utilization decreased compared to the prior year as weakening commodity prices in 2015 and into 2016 caused a significant reduction in demand for land drilling rigs.

Dayrates lowered in the third quarter of 2016 compared to the same quarter in 2015, due to lower early termination revenue and an increased number of rigs operating in the spot market. During the third quarter of 2016, Trinidad received standby revenue of US\$2.7 million on two rigs that were idle but contracted, compared to early termination of US\$6.8 million on eight rigs with an average term remaining of eight months in the third quarter of 2015. For the first nine months of 2016, dayrates increased over the same period in 2015 as higher early termination and standby revenue offset the impact of weaker industry conditions. In the first nine months of 2016, Trinidad received early termination and standby revenue of US\$41.1 million (2015 - US\$34.7 million) largely related to six rigs (2015 - 15 rigs) with an average remaining term of nine months at September 30, 2016 (2015 - one month). Excluding the impact of early termination and standby revenue, dayrates averaged US\$19,521 per day in the current quarter of 2016 and US\$19,393 per day in the first nine months of 2016, down US\$963 per day and US\$1,880 per day, respectively, from the same periods of 2015. Underlying dayrates lowered in the third quarter and in the first nine months 2016 compared to the prior period as a result of weak customer demand and an increased number of rigs operating in the spot market.

Operating income lowered in the third quarter of 2016 and in the first nine months of 2016, compared to the same periods of 2015. Cost cutting measures undertaken by the Company, including lower wages, a reduced headcount and lower repairs and maintenance, allowed the Company to reduce operating costs in 2016 and continue to record reasonable operating margins. Despite these changes, lower revenue generation and increased pressure on dayrates caused a decline in overall profitability.

Operating income - net percentage decreased for the three months ended September 30, 2016, driven by lower early termination and standby revenue and lower activity in the third quarter of 2016. For the nine months ended September 30, 2016, operating income - net percentage increased compared to the prior year due to higher early termination and standby revenue recorded in 2016. After adjusting for early termination and standby revenue, operating income - net percentage lowered in the quarter to 34.3% from 38.7% in the third quarter of 2015 and in the first nine months of 2016 to 35.4% from 37.2% in 2015 as a result of lower dayrates and fixed costs spread over a smaller operating base.

At September 30, 2016, Trinidad's U.S. and international rig count totaled 67 rigs, a decrease of five rigs compared to the same period of 2015. At December 31, 2015, Trinidad chose to review the existing rig fleet and decommission five low specification rigs.

In the second quarter of 2016, Trinidad's rig in the UAE began drilling, recording 75 operating days in the quarter and 120 operating days in the first nine months of 2016.

Joint Venture Operations

Trinidad Drilling International (TDI):

Amounts below are presented at 100% of the value included in the statement of operations and comprehensive income for Trinidad Drilling International (TDI); Trinidad owns 60% of the shares of TDI.

(CDN\$ thousands except percentage and operating data)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	2016	2015 ⁽²⁾	% Change
Operating revenue	25,467	36,765	(30.7)	106,243	94,609	12.3
Other revenue	—	189	100	—	444	100
	25,467	36,954	(31.1)	106,243	95,053	11.8
Operating costs	12,672	20,026	(36.7)	57,632	52,620	9.5
Operating income ⁽¹⁾	12,795	16,928	(24.4)	48,611	42,433	14.6
Operating income — net percentage ⁽¹⁾	50.2%	45.8%		45.8%	44.6%	
Operating days ⁽¹⁾	274	595	(53.9)	1,425	1,521	(6.3)
Rate per operating day (CDN\$) ⁽¹⁾	87,127	59,609	46.2	71,712	60,416	18.7
Rate per operating day (US\$) ⁽¹⁾	67,133	46,591	44.1	53,609	48,536	10.5
Utilization rate — operating day ⁽¹⁾	37%	99.0%	(62.6)	65%	96%	(32.3)
Number of drilling rigs at period end	8	8	—	8	8	—
Number of active drilling rigs at period end	8	7	14.3	8	7	14.3

Notes:

- (1) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions” for further details.

Operating revenue and operating income lowered in the third quarter of 2016 compared to the same quarter in 2015, mainly due to lower activity levels in the current quarter. Operating days lowered in the quarter as a result of one idle rig in Saudi Arabia and four idle rigs in Mexico. Dayrates in the current quarter increased over the third quarter in 2015 due to more standby revenue recorded in 2016 as all idle rigs collected standby in the quarter. Operating income — net percentage increased in the third quarter of 2016, compared to the same quarter in 2015 as a result of higher standby revenue and a reduction in operating costs in the current period.

For the nine months ended September 30, 2016, operating revenue and operating income increased over the same period in 2015 as higher dayrates and a stronger U.S. to Canadian dollar exchange rate offset the impact of lower operating days. In the first nine months of 2016, TDI recorded slightly lower operating days due to lower activity in Saudi Arabia partly offset by increased operating days in Mexico, compared to the same period in 2015.

Operating income — net percentage remained relatively stable in the nine months ended September 30, 2016 compared to the same period in 2015.

Manufacturing Operations

(CDN\$ thousands except percentage and operating data)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Operating revenue ⁽¹⁾	—	162	100	2,917	39,049	(92.5)
Other revenue	—	(2)	100	1	4	(75.0)
	—	160	100	2,918	39,053	(92.5)
Operating costs ⁽¹⁾	—	977	100	4,029	36,986	(89.1)
Operating income ⁽³⁾	—	(817)	1,000	(1,111)	2,067	(153.7)
Operating income — net percentage ⁽³⁾	0.0%	(510.6%)	—	(38.1%)	5.3%	

Notes:

- (1) For the three months ended September 30, 2016, excluded from operating revenue and operating costs are downstream elimination entries of nil and nil, respectively (2015 — \$3.2 million and \$3.0 million, respectively). For the nine months ended September 30, 2016, excluded from operating revenue and operating costs are downstream elimination entries of \$4.4 million and \$4.0 million, respectively (2015 — \$54.6 million and \$52.0 million, respectively). These entries remove Trinidad's percentage of profits related to the manufacturing of rigs for the TDI-JV.
- (2) See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*" for further details.

Towards the end of 2015, due to lower demand for new and upgraded equipment, Trinidad chose to restructure its manufacturing operations, resizing its cost base to better reflect the lower activity levels. The manufacturing operations recorded reduced revenue generation and profitability in 2016 compared to 2015. As of June 30, 2016, the restructuring of the manufacturing division was completed. Costs incurred in relation to the re-organization of this segment negatively impacted profitability in 2016.

For the first six months of 2016, Trinidad recognized revenue and expenses related to an upgrade project and various repairs and maintenance type work for the TDI-JV rigs. In 2015, Trinidad recognized revenue and expenses related to the rigs it was building for the Mexico joint venture operations and for the training rig it was building for the Company's joint venture partner, Halliburton.

General and Administrative

Total G&A expenses and other general and administrative ("**Other G&A**") expenses lowered in the third quarter and in the first nine months of 2016, compared to the same periods in 2015.

Towards the end of 2015 and into 2016, Trinidad implemented several measures to lower costs including a headcount reduction, a reduction in salaries and Board fees for all executives and directors of approximately 20% and a company-wide average wage rollback of 12% for salaried employees. These changes and an ongoing focus on cost control have allowed the Company to lower its Other G&A expenses. This was slightly offset by the increase to Other G&A associated with managing an increased rig fleet due to the CanElson Acquisition; such as an increase to insurance, facility and rent expenses. As well, Trinidad recorded increased legal expenses in 2016 compared to 2015.

Trinidad has significantly reduced expenditures in non-core business activities in 2016; including the Company's barge and manufacturing operations. In order to restructure these divisions, Trinidad incurred one-time costs of approximately \$1.7 million in the first six months of 2016. As well, in the second quarter of 2016, Trinidad recorded a bad debt expense of \$0.5 million which was included in Other G&A expense (first six months of 2015 — \$0.5 million). Trinidad continues to closely monitor its receivables on an on-going basis.

For the three and nine months ended September 30, 2016, share-based payment expense increased over that in 2015 mainly due to an increase in share price in 2016. For each of the three and nine month periods of 2015, Trinidad's share price decreased, causing a reduced liability with an offsetting credit to the expense, compared to an increase in share price in 2016. As well, increased Performance Share Units ("**PSUs**") and Deferred Share Units ("**DSUs**") outstanding in 2016, due to the annual grants of each in the first quarter of 2016, caused an additional increased expense in three and nine months ended September 30, 2016.

Third party recoverable costs relate to costs incurred by Trinidad on behalf of the TDI-JV. As these costs are fully recoverable, Trinidad records a related revenue entry for this same amount.

For the three and nine months ended September 30, 2016, G&A as a percentage of revenue increased mainly due to lower revenue generation in 2016 compared to 2015.

Depreciation, Amortization and Sale of Assets

For the three and nine months ended September 30, 2016, depreciation expense increased over the same periods of 2015, mainly as a result of a change in the useful life estimates effective from October 1, 2015.

In the fourth quarter of 2015, Trinidad reviewed the useful life estimates for all rigs and related equipment and determined that using a straight-line method (versus operating days) and a lower salvage value would more accurately reflect the future economic benefits related to these assets. These adjustments were applied prospectively and, as such, have caused an increased depreciation expense in 2016. Depreciation expense was also impacted by a stronger U.S. dollar versus Canadian dollar in 2016 compared to 2015, causing higher depreciation expense on assets included in the U.S. and International Drilling Operations.

Amortization expense relates to the Company's intangible assets. The expense in the three and nine months ended September 30, 2016 related to the amortization of Trinidad's engineering and design assets and amortization expense related to customer relationships recorded as part of the CanElson Acquisition. Both the engineering and design assets and the customer relationships were acquired in the third quarter of 2015. In the prior year, the expense related to amortization of patent assets, which were fully depreciated by the end of 2015.

For the three and nine months ended September 30, 2016, Trinidad recognized a gain on sale of assets of \$8.6 million and \$10.6 million, respectively. The gains recorded in the in three and nine months ended September 30, 2016 mainly related to the sale of Trinidad's fully owned barge assets as well as the disposition of non-core assets and duplicate properties acquired as part of the CanElson Acquisition. These assets were disposed of to improve efficiencies and increase cash flows. The gains recorded in the prior periods were mainly related to the sale of underutilized non-core assets, including rig components and property.

Foreign Exchange

The majority of the foreign exchange gains and losses recorded in the in three and nine months ended September 30, 2016 and prior periods are the result of the change in foreign currency fluctuations during the period on Trinidad's outstanding inter-company balances.

During the first quarter of 2016, Trinidad had significant inter-company balances outstanding between the Canadian and U.S. and international operations. Large swings in the U.S. foreign exchange rate compared to the Canadian dollar caused a large swing in the unrealized foreign exchange recorded. During the second quarter of 2016, Trinidad recorded a foreign exchange loss mainly related to Trinidad's operations in Mexico where the peso declined in value compared to the Canadian dollar. In the third quarter of 2016, the foreign exchange rates were fairly consistent through the period, causing lower fluctuations in foreign currency balances.

The Company utilizes a net investment hedge on a portion of its foreign subsidiaries against its U.S. dollar denominated 2019 Notes. This hedge allows the Company to better reflect foreign exchange impacts related to operations as a portion of the translation adjustment is included in the cumulative translation account in other comprehensive (loss) income.

Impairment

For each of the three and nine months ended September 30, 2016, Trinidad did not identify any further impairment indicators on wholly consolidated companies that would indicate an impairment test was required. As such, no impairment loss was recorded on either property and equipment or intangible assets and goodwill in either period.

At September 30, 2015, Trinidad reviewed the marketability of rig assets included in the barge drilling operations. Based on existing market conditions and an expected lack of operations in the foreseeable future, all of the barge rig assets were impaired to nil value, resulting in an impairment expense of \$26.9 million.

As well in the third quarter of 2015, in response to further deterioration of industry conditions the Company determined that there were indications of impairment present. At September 30, 2015, the Company completed its assessment and recognized an impairment loss of \$111.8 million on the goodwill associated with its U.S. and international segment. These goodwill assets were originally generated on the acquisitions of Cheyenne Drilling and the barge drilling operations. Refer to the unaudited consolidated interim financial statements for the three and nine months ended September 30, 2015, for details on the impairment recorded.

The impairment analysis was completed by comparing the total estimated future cash flows to the net book value at September 30, 2015. The recoverable amounts of all cash generating units was based on forecasted cash flows over five years, and a terminal value, based on management's best estimates incorporating future market conditions and past experience. These cash flows were discounted utilizing the Company's weighted average cost of capital of 12.18%. At September 30, 2015, the recoverable amount of all cash generating units exceeded the corresponding carrying value of fixed assets.

Trinidad applied a sensitivity of a 10.0% decrease in forecasted cash flows and noted that the recoverable amount of all cash generating units exceeded the corresponding carrying value. Additionally, management noted that a one percent change in the discount rate applied did not significantly affect forecasted cash flows or lead to further impairment. As at September 30, 2015, all forecasted cash flows supported existing fixed assets such that any reasonable change in the key assumptions used at that time would not have resulted in additional impairment to goodwill or property and equipment.

Finance and Transaction Costs

(CDN\$ thousands except percentage)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Interest on long-term debt	11,645	12,389	(6.0)	37,670	34,855	8.1
Accretion on 2019 Notes	151	138	9.4	454	392	15.8
Deferred financing costs on long-term debt	584	461	26.7	1,655	1,365	21.2
Finance costs related to long-term debt	12,380	12,988	(4.7)	39,779	36,612	8.7
Transaction Costs	—	4,959	—	—	5,655	—
Finance and transaction costs	12,380	17,947	(31.0)	39,779	42,267	(5.9)
% of revenue	18.5%	14.4%		14.8%	10.2%	

Finance and transaction costs lowered in the three and nine months ended September 30, 2016, mainly due to lower transaction costs. Transaction costs in 2015 related to expenses incurred in connection with the CanElsion Acquisition.

For the three and nine months ended September 30, 2016, interest on long-term debt decreased by 6.0% and increased by 8.1% compared to 2015. Interest on long-term debt is largely driven by interest expense related to the 2019 Notes which are held and paid in U.S. funds.

On the first nine months of 2016, the USD/CDN foreign exchange rates averaged approximately 1.3291, compared to 1.2406 in the first nine months of 2015, causing higher interest expense in the nine month period. On a quarterly basis, the foreign currency fluctuations were less variable. As such, interest expense on the 2019 Notes stayed fairly consistent quarter over quarter, with the overall decrease due to a decrease in interest expense on the revolving facility.

On December 14, 2015, Trinidad announced that it had amended its Credit Facility, choosing to reduce the size of its revolving loans in order to lower standby fees on funds it does not expect to need access to and has not historically utilized. On June 24, 2016, the Credit Facility was further amended, lowering the revolving facilities

and adjusting the required covenants in order to increase the financial flexibility of the Company. For the three and nine months ended September 30, 2016, Trinidad recorded lower interest expense on the revolving facility compared to that in 2015. At September 30, 2016, Trinidad had a zero balance drawn, compared to \$84.9 million drawn at September 30, 2015.

Income Taxes

For the three months ended September 30, 2016, current tax expense decreased compared to the same period in 2015 largely due to recoveries attributable to the CanElson Acquisition in 2015, along with decreased taxability in the U.S. in 2016. For the nine months ended September 30, 2016, current tax lowered due to decreased profitability in the Company's manufacturing operations in 2016.

For the three months ended September 30, 2016, deferred tax recovery decreased largely due to an impairment expense recognized in the third quarter of 2015. For the nine months ended September 30, 2016 deferred tax recovery decreased compared to the same period in 2015 mainly related to the impairment recorded in 2015, along with reduced tax rates in the U.S. compared to the same period last year. In both the third quarter of 2016 and in the first nine months of 2016, these increases were offset by the reduced revenue generation and profitability of the manufacturing operations.

Net (Loss) Earnings

For the three and nine months ended September 30, 2016, net income increased compared to that in 2015. Although operating income was lower in 2016, compared to the prior year of 2015, lower impairment expenses related to property and equipment and goodwill recorded in 2016 caused overall net income to increase in 2016. This was slightly offset by higher depreciation expense, lower deferred income tax recovery, and a loss from investment in the joint ventures recorded in 2016. The loss from joint ventures was largely due to non-cash fair value adjustments recorded in the current year as the TDI-JV is considered a financial asset and is re-valued at each period-end date.

For the three and nine months ended September 30, 2016, cash provided by operations decreased compared to 2015. A decline in activity across each of the Canadian and U.S. and international operations has reduced the amount of cash generated from operations in 2016. However, despite challenging market conditions, Trinidad generated positive cash provided by operations in the first nine months of 2016.

Liquidity and Capital Resources

As at (CDN\$ thousands)	September 30, 2016	December 31, 2015	\$ Change
Working capital ⁽¹⁾	46,454	61,372	(14,918)
2019 Notes	588,686	620,661	(31,975)
Credit facility	—	89,873	(89,873)
Limited partnership loans	2,237	2,609	(372)
	590,923	713,143	(122,220)
Less: unamortized debt issue costs	(5,208)	(6,223)	1,015
Total long-term debt	585,715	706,920	(121,205)
Total long-term debt as a percentage of assets	30.1%	31.6%	
Total assets	1,949,092	2,236,200	(287,108)
Total long-term liabilities	645,189	783,254	(138,065)
Total long-term liabilities as a percentage of assets	33.1%	35.0%	

<u>For the nine months ended September 30,</u>	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>
Cash provided by operations	38,293	108,909	(70,616)
Cash provided by investing	19,817	(205,259)	225,076
Cash (provided) used by financing	(91,665)	41,227	(132,892)

Notes:

- (1) See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*” further details.
- (2) The Limited Partnership Loans relate to non-revolving loans secured on drilling rigs included in the partnerships. These loans are classified as current portion of long-term debt on the consolidated statements of financial position.

For the nine months ended September 30, 2016, working capital decreased by \$14.9 million when compared to December 31, 2015, due to a decrease in current assets of \$82.5 million offset by a decrease in current liabilities of \$67.6 million.

Current assets decreased in the third quarter of 2016 mainly due to a reduction in accounts receivable as a result of lower activity in 2016 compared to 2015. As well, prepaid assets decreased mainly due to the recognition of prepaid insurance expense during the period and cash decreased as a result of lower activity and repayments of long-term debt, partly offset by a distribution from the TDI joint venture. Lastly, assets held for sale decreased due to the disposal of the property classified as assets held for sale at year-end. These were slightly offset by an increase in inventory due to parts received during the third quarter of 2016.

Current liabilities decreased in the third quarter of 2016 mainly due to a reduction in accounts payable, accrued liabilities and deferred revenue. The reduction in accounts payable and accrued liabilities was a result of lower activity across Canada and the U.S. and International Drilling Operations as well as lower activity in Trinidad’s manufacturing division. The decrease in deferred revenue was due to this balance being fully recognized to revenue during the second quarter of 2016. The revenue recorded related to deferred early termination revenue for contracts in the U.S. and International Drilling Operations. In addition, dividends payable decreased due to the suspension of the dividend in 2016 compared to a \$0.01 per share dividend declared at December 31, 2015. Lastly, there was a slight decrease in the current portion of long-term debt due to a payment made in the first quarter of 2016.

Trinidad’s total long-term debt balance at September 30, 2016 decreased by \$121.2 million compared to December 31, 2015. This decrease was largely due to no amounts being drawn on the Canadian revolving facility or U.S. revolving facility at September 30, 2016 compared to December 31, 2015 where \$65.0 million and US\$18.0 million were drawn, respectively. Additionally, the value of the 2019 Notes decreased as a result of the foreign currency fluctuations at September 30, 2016 as the Canadian dollar strengthened in value compared to the U.S. dollar closing at 1.3117 compared to 1.3840 at December 31, 2015. As these notes are held in U.S. funds, the 2019 Notes are translated at each period end, and as such, their aggregate value fluctuates with U.S. to Canadian exchange rates.

The 2019 Notes are due on January 15, 2019 and interest is payable semi-annually in arrears on January 15 and July 15. Trinidad has designated the 2019 Notes as a net investment hedge of the U.S. and International Drilling Operations. As a result, unrealized gains and losses on the U.S. dollar-denominated 2019 Notes are offset against foreign exchange gains and losses arising from the translation of the foreign subsidiaries and included in the cumulative translation account in other comprehensive income.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

FINANCIAL HIGHLIGHTS

For the years ended December 31, (CDN\$ thousands)	For the years ended December 31,		
	2015	2014	% Change
Revenue	551,899	941,334	(41.4)
Revenue, net of third party costs ⁽¹⁾	525,043	883,522	(40.6)
Operating income ⁽¹⁾	222,166	315,159	(29.5)
Operating income percentage ⁽¹⁾	40.3%	33.5%	20.3
Operating income — net percentage ⁽¹⁾	42.1%	35.7%	17.9
Adjusted EBITDA ⁽¹⁾	186,746	252,046	(25.9)
Cash provided by operations	215,462	156,519	37.7
Net (loss) earnings	(218,346)	6,596	(3,410.3)
Capital expenditures	140,047	276,647	(49.4)

Notes:

- (1) See “Non-IFRS Measures Definitions” and “Additional IFRS Measures Definitions” above for further details.

OPERATING HIGHLIGHTS

	For the years ended December 31,		
	2015	2014	% Change
Land Drilling Market			
Operating days ⁽¹⁾			
Canada	7,303	12,203	(40.2)
United States and international	9,474	18,478	(48.7)
Rate per operating day ⁽¹⁾			
Canada (CDN\$)	24,907	25,638	(2.9)
United States and International (CDN\$)	31,241	23,873	30.9
United States and International (US\$)	24,917	21,749	14.6
Utilization rate — operating day ⁽¹⁾			
Canada	31%	57%	(45.6)
United States and International	45%	87%	(48.3)
Utilization rate for service rigs ⁽⁵⁾	45%	45%	—
Number of drilling rigs at period end ⁽³⁾			
Canada	72	53	35.8
United States and International	67	47	42.6
Barge Drilling Market			
Operating days ⁽¹⁾	57	1,049	(94.6)
Rate per operating day (CDN\$) ⁽¹⁾	29,969	37,655	(20.4)
Rate per operating day (US\$) ⁽¹⁾	26,033	34,424	(24.4)
Utilization rate — operating day ⁽¹⁾	7%	57%	(87.7)
Number of barge drilling rigs at period end ⁽³⁾	—	2	(100.0)
Number of barge drilling rigs under Bareboat Charter Agreements at period end ⁽³⁾	—	3	(100.0)
TDI Joint Venture Operations ⁽²⁾			
Operating days ⁽¹⁾	2,189		
Rate per operating day (CDN\$) ⁽¹⁾	60,478		
Rate per operating day (US\$) ⁽¹⁾	47,732		
Utilization rate — operating day ⁽¹⁾	96%		
Number of drilling rigs at period end ⁽³⁾	8	6	33.3

Notes:

- (1) See “*Non-IFRS Measures Definitions*” and “*Additional IFRS Measures Definitions*” above for further details.
- (2) Trinidad is party to a joint venture with a wholly-owned subsidiary of Halliburton. These rigs are owned by the joint venture. Operating data for 2014 has not been provided given the start-up nature of the operations.
- (3) Refer to “*Management Discussion and Analysis of Financial Condition and Results of Operations — Results from Operations*” for details on the changes to the rig count.

2015 Overview

During 2015, Trinidad managed its operations through challenging industry conditions, adjusting costs and operations where possible to improve efficiencies. Weak commodity prices and slowing customer demand throughout 2015 led to lower activity levels and reduced profitability compared to prior year. The impact of these challenging conditions was partly offset by the addition of CanElson operations, acquired in the third quarter of 2015 and the continued strong performance from the Company’s international Joint Venture Operations. In addition, standby and early termination revenues recorded in 2015 positively impacted revenue and operating income- net percentage.

On August 11, 2015, Trinidad closed the previously announced acquisition of CanElson. This transaction added 51 land drilling rigs to Trinidad’s operations across North America, growing the Company’s geographic presence in key operating areas, expanding its product offering and customer base, and reducing overall corporate leverage. The acquisition was financed through a combination of \$295.2 million of shares issued and \$50.0 million of cash paid.

In the fourth quarter and full year 2015, Adjusted EBITDA was \$47.0 million and \$186.7 million, respectively. Adjusted EBITDA decreased by 39.2% in the quarter and 25.9% full year, compared to the same periods in 2014, as weaker market conditions reduced the number of operating days and continued to put downward pressure on dayrates. In reaction to these conditions, Trinidad reviewed its cost structure and resized its business in order to manage through the downturn. The Company lowered general and administrative costs, restructured its manufacturing division and significantly lowered costs in non-core operating areas such as its barge drilling operations. In addition to these cost cutting initiatives, the impact of higher early termination and standby revenue and a growing contribution from Trinidad’s international joint venture helped mitigate the impact of weaker customer demand on cash flow generation and margins in the current periods.

Over the past few years, Trinidad has actively upgraded its equipment in order to remain competitive. Under IFRS, the Company assessed the carrying value of assets in the cash generating units (“CGUs”) by comparing the total estimated future cash flows to the net book value at December 31, 2015. The Company evaluated its rig fleet in order to identify rigs that would be considered lower specification equipment with high costs to maintain. As such, the Company has decommissioned 15 rigs at the end of 2015, 10 included in the Canadian operations and five included in the U.S. and International Drilling Operations. By removing these rigs from the fleet, Trinidad continues to maintain equipment that will remain competitive into future periods.

For the year ended December 31, 2015, Trinidad recorded total impairment expense of \$317.5 million: \$34.4 million relates to the 15 decommissioned rigs discussed above, \$144.3 million relates to other lower specification assets including capital inventory, \$26.9 million relates to the barge rig assets no longer being marketed by the Company, and \$111.8 million relates to Goodwill from prior period acquisitions.

Trinidad recorded a net loss of \$218.3 million or \$(1.30) per share (diluted) for the year ended December 31, 2015, down \$224.9 million from net income of \$6.6 million in 2014, mostly as a result of a larger impairment expense recorded in 2015, as well as lower Adjusted EBITDA, and higher finance and transaction costs; offset partly by a larger recovery recorded on deferred tax expenses in the year ended December 31, 2015.

Results From Operations

Canadian Operations

FINANCIAL HIGHLIGHTS

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2015	2014	% Change
Operating revenue ⁽¹⁾	184,431	312,871	(41.1)
Other revenue	246	1,295	(81.0)
	184,677	314,166	(41.2)
Operating costs ⁽¹⁾	108,967	178,209	(38.9)
Operating income ⁽³⁾	75,710	135,957	(44.3)
Operating income — net percentage ⁽³⁾	41.0%	43.3%	
Operating days ⁽³⁾	7,303	12,203	(40.2)
Drilling days ⁽³⁾	6,738	11,204	(39.9)
Rate per operating day (CDN\$) ⁽³⁾	24,907	25,638	(2.9)
Utilization rate — operating day ⁽³⁾	31%	57%	(45.6)
Utilization rate — drilling day ⁽³⁾	29%	52%	(44.2)
CAODC industry average ⁽²⁾	23%	44%	(47.7)
Number of drilling rigs at period end	72	53	35.8

Notes:

- (1) Operating revenue and operating costs for the twelve months ended December 31, 2015 and 2014 exclude third party recovery and third party costs of \$17.4 million and \$39.8 million, respectively.
- (2) CAODC industry average is based on drilling days divided by total days available.
- (3) See “Non-IFRS Measures Definitions” and “Additional IFRS Measures Definitions” above for further details.

For the year ended December 31, 2015, operating revenue and operating income was \$184.4 million and \$75.7 million, respectively, down 41.1% and 44.3%, respectively, from the prior year. Operating revenue and operating income lowered as a result of fewer operating days in 2015, which decreased by 40.2% or 4,900 operating days. The impact of lower activity was partly offset by the addition of the CanElsion rigs, which contributed 1,383 operating days in 2015. Despite the challenging market conditions, Trinidad was able to maintain utilization levels six percentage points higher than the industry average, reflecting the Company’s solid contract base and its ongoing focus towards strong operational performance and safety.

Dayrates in 2015 decreased by \$731 per day, mainly related to weak customer demand and growing industry competition throughout 2015. The decrease was slightly offset by an increase in standby and early termination revenue recorded on a per day basis in 2015. Total standby and early termination revenue recorded in 2015 was \$4.3 million, or \$589 per operating day, compared to \$4.7 million, or \$385 per operating day, in 2014. Trinidad’s focus towards higher specification rigs and long-term contracts that include an early termination clause helped the Company mitigate the downturn in 2015.

Operating income — net percentage declined slightly for the year ended December 31, 2015, to 41.0% compared to 43.3% in the prior year. Although Trinidad recorded lower revenue in 2015, the Company was able to maintain a fairly stable operating income — net percentage due to cost management strategies. Trinidad’s operating costs are highly variable, allowing costs to decline largely in line with lower activity levels. In order to further reduce operating costs, Trinidad closely monitored repair and maintenance expenditures throughout 2015, incurring expenses only as rigs returned to work. In addition, the Company worked with its suppliers to reduce costs in all aspects of its operations. The slight decline in profitability was due to the fixed nature of some operating support costs being spread over fewer operating days in 2015.

For the year ended December 31, 2015, due to market conditions and the future outlook of drilling activities, Trinidad determined that indicators of impairment existed. As such, under IFRS, the Company is required to assess the carrying value of assets in each of the CGUs containing goodwill. The test involves determining a value in use on a five year estimated cash flow, including a terminal value, based on assumptions on expected future performance. The resulting value is then compared to the carrying value of the CGU to determine whether an impairment exists. As a result of the above, it was determined that property and equipment within the Canadian operations was impaired by \$103.7 million. Trinidad's chose to review the current rig fleet and decommission older, lower specification rigs in order to position the Canadian fleet to meet future customer demand and perform well when industry conditions improve. As such, 10 rigs have been decommissioned for a total impairment of \$24.7 million, and existing assets were impaired for total impairment of \$79.0 million.

Trinidad's Canadian rig count totaled 72 rigs at the end of 2015, an increase of 19 rigs compared to the end of 2014. The rig count increased as a result of the CanElson Acquisition, which closed in August of 2015 and added 28 rigs to the Canadian rig fleet in the third quarter of 2015. As well, the rig fleet increased by the addition of one new build that was delivered in the first quarter of 2015 from Trinidad's manufacturing operations. This was offset by the reduction of 10 rigs removed at December 31, 2015, as Trinidad reviewed the existing rig fleet and chose to decommission low specification rigs.

United States and International Operations

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2015	2014	% Change
Operating revenue ⁽¹⁾	297,711	480,240	(38.0)
Other revenue	606	451	34.4
	298,317	480,691	(37.9)
Operating costs ⁽¹⁾	153,434	308,533	(50.3)
Operating income ⁽¹⁾	144,883	172,158	(15.8)
Operating income — net percentage ⁽²⁾	48.6%	35.8%	
Land Drilling Rigs			
Operating days ⁽²⁾	9,474	18,478	(48.7)
Drilling days ⁽²⁾	8,315	16,038	(48.2)
Rate per operating day (CDN\$) ⁽²⁾	31,241	23,873	30.9
Rate per operating day (US\$) ⁽²⁾	24,917	21,749	14.6
Utilization rate — operating day ⁽²⁾	45%	87%	(48.3)
Utilization rate — drilling day ⁽²⁾	40%	75%	(46.7)
Number of drilling rigs at period end	67	47	42.6
Barge Drilling Rigs			
Operating days ⁽²⁾	57	1,049	(94.6)
Rate per operating day (CDN\$) ⁽²⁾	29,969	37,655	(20.4)
Rate per operating day (US\$) ⁽²⁾	26,033	34,424	(24.4)
Utilization rate — operating day ⁽²⁾	7%	57%	(87.7)
Number of barge drilling rigs at period end	—	2	(100.0)
Number of barge drilling rigs under Bareboat Charter Agreements at period end	—	3	(100.0)

Notes:

- (1) Operating revenue and operating costs for the twelve months ended December 31, 2015 and 2014 exclude third party recovery and third party costs of \$8.2 million and \$16.6 million, respectively.
- (2) See "Management's Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions" for further details.

Operating revenue and operating income for the year ended December 31, 2015, was \$297.7 million and \$144.9 million, respectively, down 38.0% and 15.8%, respectively, from the prior year. Weakening commodity prices in 2015 caused a significant reduction in demand for land drilling rigs which led to lower activity in the current year compared to 2014. Land rig utilization decreased to 45% from 87% in 2014, and operating days declined by 48.7% to 9,474 days, compared to 18,478 days in 2014. The reduction in operating days was slightly offset by the CanElson acquisition which closed in August of 2015, adding 21 rigs and 785 additional operating days to 2015.

Dayrates in 2015 increased by US\$3,168 per day compared to the prior year. Dayrates increased in 2015 mainly as a result of higher early termination and standby revenues recorded as a number of customers chose to reduce capital spending programs and terminate contracts early. Early termination and standby revenue in 2015 was US\$39.2 million, which mainly related to lump sum amounts of US\$21.6 million recorded as early termination revenue related to 11 rigs. The majority of the amount recorded in early termination in 2015 related to contracts that would have expired during the period. Early termination and standby revenue in 2014 was US\$12.9 million, which mainly related to lump sum amounts of US\$9.8 million recorded as early termination revenue related to three rigs. For the year ended December 31, 2015, early termination and standby revenue increased the dayrate by US\$4,142 per day compared to US\$698 per day in the prior year.

Operating income — net percentage increased to 48.6% in 2015 compared to 35.8% in 2014. Higher early termination and standby revenue recorded in 2015 had a positive impact on revenue generation and profitability, as this revenue has no associated costs. Additionally, a stronger U.S. dollar compared to Canadian dollar during 2015 had a positive impact on the U.S. and international drilling results when translated into Canadian dollars. Lastly, as a reflection of weak industry conditions, Trinidad's U.S. and International Drilling Operations continued to monitor its operating cost structure and reduce costs wherever possible. In addition to lower wages and reduced headcount, the Company reduced supply costs and scaled back repairs and maintenance to only those rigs expected to work in the near term. Excluding standby and early termination revenues, operating income — net percentage increased by 4.6 percentage points from 2014 to 2015 mainly due to cost reductions and a strong foreign exchange impact.

For the year ended December 31, 2015, due to current market conditions and the future outlook of drilling activities, Trinidad determined that indicators of impairment existed. As such, under IFRS, the Company was required to assess the carrying value of assets in each of the CGUs containing goodwill. The test involves determining a value in use on a five year estimated cash flow, including a terminal value, based on assumptions on expected future performance. The resulting value is then compared to the carrying value of the CGU to determine whether an impairment exists. As a result of the above, it was determined that property and equipment within the U.S. and International Drilling Operations was impaired by \$101.9 million. Trinidad chose to review the current rig fleet and decommission older, lower specification rigs by \$75 million in order to position the Company to meet future customer demand and perform well when industry conditions improve. As such, five rigs have been decommissioned for a total impairment of \$9.7 million, and existing assets have been impaired for total impairment of \$65.3 million.

At December 31, 2015, Trinidad's U.S. and international rig count totaled 67 rigs, an increase of 20 rigs compared to the same period in 2014. During 2015, Trinidad's US and international rig count increased by 21 rigs as a result of the CanElson Acquisition. Additionally in 2015, three contracted new build rigs were delivered by Trinidad's manufacturing division to the U.S. and International Drilling Operations and one new rig was added in the Middle East. This was offset by the reduction of five low specification rigs which Trinidad chose to decommission in order to high grade the rig fleet.

Operations in the barge drilling market were strongly affected by the continued softening of market conditions and dayrates in the industry continued to decline as competition intensified for available drilling work in 2015. As such, Trinidad chose to stack all five barge rigs during the first quarter of 2015. The Company scaled back staffing levels and costs to reflect the current market and Trinidad did not extend the Bareboat Charter

Agreements that expired at the end of the first quarter. Due to the downturn, Trinidad is not marketing its barge rigs in the near term in order to focus on its core land drilling business. Therefore, as of September 30, 2015, all barge rigs were removed from Trinidad's active rig count, and the value of the barge drilling rigs was impaired to nil.

Joint Venture Operations

Trinidad Drilling International (TDI):

Amounts are presented at 100% of the value included in the statement of operations and comprehensive income for Trinidad Drilling International (TDI); Trinidad owns 60% of the shares of TDI.

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2015	2014 ⁽²⁾	% Change
Operating revenue	136,731	42,428	222.3
Other revenue	333	87	282.8
	137,064	42,515	222.4
Operating costs	78,005	26,149	198.3
Operating income ⁽¹⁾	59,059	16,366	260.9
Operating income — net percentage ⁽²⁾	43.1 %	38.5 %	
Operating days ⁽¹⁾	2,189		
Rate per operating day (CDN\$) ⁽¹⁾	60,478		
Rate per operating day (US\$) ⁽¹⁾	47,732		
Utilization rate — operating day ⁽¹⁾	96 %		
Number of drilling rigs at period end	8	6	33.3
Number of active drilling rigs at period end	8	4	100.0

Notes:

- (1) See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*” for further details.
- (2) Operating data for 2014 has not been provided given the start-up nature of the operations.

In Trinidad's Joint Venture Operations, operating revenue and operating income for 2015 was \$136.7 million and \$59.1 million, respectively, up 222.3% and 260.9%, respectively, from the prior year. Expanding operations and an increased rig count in 2015 drove the improved results in the current year. During 2015, TDI had all four rigs in Saudi Arabia drilling and began operations with its four Mexico rigs, compared to the prior year where only the rigs in Saudi Arabia recorded operating days.

For the year ended December 31, 2015, dayrates were positively impacted by mobilization and standby revenue recorded on TDI's Mexico rigs. Operating income and operating income — net percentage also increased in the current period, driven by increasing activity levels as well as mobilization and standby revenue. Mobilization and standby revenue is recorded with no associated operating days or operating costs, increasing the overall average dayrate and positively impacting operating income — net percentage.

Diavaz CanElson de Mexico, S.A. de C.V. (DCM):

As part of the CanElson Acquisition, which closed effective August 11, 2015, Trinidad acquired a 50% ownership in DCM, a joint venture which operates drilling and service rigs in Mexico. DCM currently has two drilling rigs and two service rigs in Mexico. For the period August 11 to December 31, 2015, Trinidad's portion of DCM's income was \$1.1 million mainly due to a deferred tax recovery recorded in the fourth quarter of 2015.

Manufacturing Operations

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2015	2014	% Change
Operating revenue ⁽¹⁾	42,044	88,614	(52.6)
Other revenue	5	51	(90.2)
	42,049	88,665	(52.6)
Operating costs ⁽¹⁾	41,749	83,075	(49.7)
Operating income ⁽¹⁾	300	5,590	(94.6)
Operating income — net percentage ⁽²⁾	0.7%	6.3%	

Notes:

- (1) For the year ended December 31, 2015, excluded from operating revenue and operating costs are downstream elimination entries of \$60.2 million and \$57.6 million, respectively (2014 — \$96.2 million and \$89.6 million, respectively). These entries remove Trinidad's percentage of profits related to the manufacturing of rigs for the TDI joint venture.
- (2) See "Management's Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions" for further details.

For the year ended December 31, 2015, Trinidad recognized revenue and expenses related to the rigs it was building for the Mexico joint venture operations and for the training rig it was building for its joint venture partner, Halliburton. For the year ended December 31, 2014, Trinidad recognized revenue and expenses related to the rigs it was building for the Joint Venture Operations in Saudi Arabia and Mexico, as well as amounts related to the training rig it was building for Halliburton.

Additionally, Trinidad constructed three new rig builds under long-term contracts for its U.S. operations. These rigs are all high performance Candrill, 1,500 horsepower, alternating current (AC) rigs with walking systems and 7,500 pounds per square inch (PSI) circulating systems. As well, in the first quarter of 2015, Trinidad delivered one new high specification rig to the Canadian operations.

Towards the end of 2015, activity in Trinidad's manufacturing operations declined significantly as rig construction was largely complete. Due to the reduced operations, the Company restructured its manufacturing operations, resizing its cost base to better reflect the lower activity levels.

The purpose of the manufacturing operations is to support Trinidad's divisions, including all associates and joint ventures. Management does not commit to building a rig with the intention to earn significant profits on the rig build, and instead evaluates projects based on capital allocation and returns for the Company as a whole. Trinidad continues to support current operations by providing maintenance and re-certifications on the exiting rig fleet. However, no future rig builds are scheduled at this time.

General and Administrative

For the year ended December 31, 2015, total G&A expenses were \$62.9 million, down \$2.7 million or 4.1%, when compared to the prior year.

For the year ended December 31, 2015, Other G&A expenses were \$61.9 million, down \$1.6 million or 2.5% compared to the prior year. In light of industry conditions, Trinidad implemented several measures to lower overall G&A expenses including a headcount reduction, a 20% reduction in salaries and board fees for all executives and directors and a company-wide average wage rollback of 12% for salaried employees. Additionally, Trinidad has significantly reduced expenditures in non-core business activities, such as the Company's barge market operations.

Although Trinidad undertook measures to reduce overhead costs in 2015, the overall reduction when compared to 2014 was not fully reflected as many cost reductions occurred towards the end of the year. Additionally, Trinidad incurred costs in 2015 in relation to these cut backs, including an increase of \$1.7 million recorded related to termination and severance costs. As well, included in G&A were costs related to salaries and legal expenses incurred due to the CanElson Acquisition. These were costs related to the additional staff and legal fees incurred subsequent to the actual acquisition. All costs incurred for the transaction directly are included in finance and transaction costs.

Lastly, Trinidad recorded \$2.3 million of higher rent expense in 2015 which included one-time costs incurred on duplicate corporate office facilities of \$1.1 million, and a bad debt expense recorded in Trinidad's U.S. and International Drilling Operations of \$2.6 million in 2015.

For the year ended December 31, 2015, share-based payment expense decreased by \$1.0 million compared to the same period in 2014. This decrease was mainly due to a lower stock price over the past twelve months combined with PSU forfeitures throughout the year. The reduction in share price caused a decrease in the liability for DSUs and PSUs year over year. This decrease is slightly offset by additional PSU's granted (annual grant occurring in January) and DSU's granted during the year.

Third party recoverable costs relate to costs incurred by Trinidad on behalf of the TDI-JV. As these costs are fully recoverable, Trinidad records a related revenue entry for this same amount, causing a nil net income effect.

Depreciation, Amortization and Sale of Property and Equipment

For the year ended December 31, 2015, depreciation expense was \$117.7 million, down \$7.1 million compared to the prior year. The decrease was mainly related to reduced activity in each of Trinidad's U.S. and international and Canadian drilling divisions when compared to the prior year. The impact of lower activity was partly offset by a change in the depreciation policy in the fourth quarter of 2015. As of October 1, 2015, Trinidad reviewed the depreciation methodology for all rigs and related equipment and determined that using a straight-line method (versus operating days) and a lower salvage value would more accurately reflect the future economic benefits related to these assets. These adjustments were applied prospectively and caused an increase to depreciation expense in 2015 of approximately \$11.6 million.

Depreciation expense was also impacted by a stronger U.S. dollar versus Canadian dollar in 2015 compared to the prior year, causing higher depreciation expense on assets included in the U.S. and International Drilling Operations. Lastly, the assets acquired through the CanElson Acquisition led to increased depreciation expense year over year.

The amortization expense relates to the Company's intangible assets and has historically remained consistent year over year. However, in January of 2015 Trinidad updated the useful life of the remaining patents to more accurately reflect their useful life. As such, amortization expense increased compared to the same periods in 2014. Additionally, a small portion of the increase relates to amortization expense on Trinidad's engineering and design assets recorded in 2015 and customer relationships recorded from the CanElson Acquisition.

For the year ended December 31, 2015, Trinidad recognized a gain on sale of property and equipment of \$1.6 million compared to a gain on sale of \$8.2 million recorded in 2014. The gain in the current period mainly relates to the sale of non-core assets, including rig components and land that were being underutilized by the Company. The gain recorded in 2014 mainly relates to the sale of three rigs from the U.S. and International Drilling Operations to the TDI-JV operations.

Foreign Exchange

For the year ended December 31, 2015, Trinidad recorded a foreign exchange loss of \$7.2 million compared to a loss of \$5.0 million recorded in 2014. The majority of the foreign exchange gains and losses are the result of the

change in foreign currency fluctuations during the period. During 2015, Trinidad had significant inter-company balances outstanding between the Canadian and U.S. and international operations. Large swings in the U.S. foreign exchange rate compared to the Canadian dollar causes large swings in unrealized foreign exchange. During 2015 and 2014, the U.S. dollar was much stronger than the Canadian dollar, which resulted in an overall foreign exchange loss for the period.

The Company utilizes a net investment hedge on a portion of its foreign subsidiaries against its U.S. dollar-denominated 2019 Notes. This hedge allows the Company to better reflect foreign exchange impacts related to operations as a portion of the translation adjustment is included in the cumulative translation account in other comprehensive income (loss).

Impairment

For the year ended December 31, 2015, due to current market conditions and the future outlook of drilling activities, Trinidad determined that indicators of impairment existed. As such, under IFRS, the Company is required to assess the carrying value of assets in each of the CGUs containing goodwill. The test involves determining a value in use on a five year estimated cash flow, including a terminal value, based on assumptions on expected future results. The resulting value is then compared to the carrying value of the CGU to determine whether an impairment exists. At December 31, 2015, the company completed an assessment and recognized an impairment loss of \$178.7 million.

The impairment analysis was completed by comparing the total estimated future cash flows to the net book value at December 31, 2015. The recoverable amounts of all CGUs was based on its value in use and was determined by estimating the future cash flows that would be generated from the continuing operations of the relevant CGUs, incorporating the following assumptions:

- a weighted average pre-tax discount rate of 14.6% to 13.1%, which considered the industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels;
- five year forecasted cash flows, taking into consideration current industry conditions, actual 2015 operating results and past experience;
- a terminal value was based on the average of the five year cash flows, assuming no annual growth rate for the cash flows through the remainder of the segment's life;
- cash flow assumptions based on recent board reviewed forecast; and
- all CGU's have been valued using the value in use method using the above assumptions.

The Company anticipated that revenue generation and utilization levels would remain depressed for the next two years (2016 and 2017), with slight improvement occurring in the second year. In the third and fourth years, revenue generation and utilization levels would return to average levels observed (2018 and 2019), with peak activity levels and pricing returning in the final year (2020). The Company anticipates that the recovery will be focused towards the CGU's with the most technically advanced equipment. Therefore, the Company anticipated that the higher specifications rigs would return to above 85.0% of the prior year levels, with the lower specification rigs would recover to less than 35.0% of prior year levels.

Included in the Canadian segment was impairment expense of \$103.7 million. This amount partially related to the decommissioning of 10 drilling rigs, which accounted for impairment of \$24.7 million. In addition, the Canadian segment had an impairment of \$79.0 million related to its active rigs as well as the associated capital spares.

Included in the U.S. and international segment was impairment expense of \$75.0 million. This amount partially related to the decommissioning of five rigs, which resulted in an impairment of \$9.7 million. These

decommissioned rigs were lower technology and lower capacity rigs, which the company determined would not return to service in 2016. In addition, the U.S. and international segment had an impairment of \$65.3 million related to capital inventory and other equipment.

Additionally, at September 30, 2015, Trinidad reviewed the marketability of rig assets included in the barge drilling operations. Based on current market conditions and an expected lack of operations in the foreseeable future, all of the barge rig assets were impaired to nil value, resulting in an impairment expense of \$26.9 million.

At September 30, 2015, the Company completed a similar assessment as the above and recognized an impairment loss of \$111.8 million on the goodwill associated with its U.S. and international segment. These goodwill assets were originally generated on the acquisitions of Cheyenne Drilling Inc. and the barge drilling operations.

During the year ended December 31, 2014, Trinidad determined that certain active and decommissioned assets were deemed no longer competitive and were not economical to upgrade. As such, management decided to decommission certain rigs and related equipment for nil value resulting in impairment losses of \$56.7 million (of which \$20.6 million was recognized in the second quarter of 2014 and \$36.1 million was recognized in the fourth quarter of 2014). As well, management determined that the carrying value of certain assets related to the barge operations exceeded the recoverable amounts and Trinidad recognized an additional impairment loss in the fourth quarter of 2014 totaling \$20.8 million.

Finance and Transaction Costs

(CDN\$ thousands except percentage)	For the years ended December 31,		
	2015	2014	% Change
Interest on long-term debt	47,844	37,314	28.2
Accretion on 2019 Notes	536	431	24.4
Deferred financing costs on long-term debt	1,820	1,786	1.9
Finance costs related to long-term debt	50,200	39,531	27.0
Transaction costs	5,651	—	100.0
Finance and transaction costs	55,851	39,531	41.3
% of revenue	10.1%	4.2%	

For the year ended December 31, 2015, finance and transaction costs were \$55.9 million, an increase of 41.3% from 2014 due to increased interest on long-term debt of \$10.5 million and increased transaction costs of \$5.7 million in the current year. Interest on long-term debt increased mainly due to interest expense related to the 2019 Notes, which is held and paid in U.S. funds. USD/CDN exchange rates averaged approximately 1.2605 in 2015 versus 1.0974 in 2014. Additionally, Trinidad utilized its revolving Credit Facility more in 2015 compared to 2014, causing interest expenses on the revolving loans to increase in 2015 when compared to 2014.

Transaction costs relate to expenses incurred during the second and third quarter of 2015 in connection with the CanElsion Acquisition. As Trinidad did not complete an acquisition in 2014, these costs increased over the prior year. Transaction costs incurred subsequent to these periods have been expensed as incurred and recorded in applicable expense accounts.

On December 14, 2015, Trinidad announced that it had amended its Credit Facility, choosing to reduce the size of its revolving loans in order to lower standby fees on funds it does not expect to need access to and has not historically utilized, and adjust the required covenants in order to have more financial flexibility over the next two years.

Income Taxes

Current tax expense for the year ended December 31, 2015 was \$2.8 million, a decrease of 39.5% when compared to the prior year. The decrease is mainly due to reduced taxability of the U.S. and international segment and the manufacturing division.

Deferred tax recovery for the year ended December 31, 2015 was a recovery of \$124.5 million compared to recovery of \$0.5 million recorded in the prior year. The increase is due to the deferred tax effect of impairments across each of the operating segments of Trinidad, as well as the reduced taxability in the Canadian drilling operations.

Net Earnings and Cash Flow

For the year ended December 31, 2015, Trinidad's consolidated net earnings decreased by \$224.9 million compared to the prior year due to a larger impairment expense recorded in 2015 as well as lower activity due to softening market conditions in response to lower commodity prices. Additionally, Trinidad recorded higher finance and transaction costs in 2015 mainly related to expenses incurred in relation to the CanElson Acquisition. This was slightly offset by a decrease in depreciation as well as a larger recovery recorded on deferred taxes in 2015.

For the year ended December 31, 2015, cash provided by operations increased by \$58.9 million compared to 2014. Cash provided by operations increased in 2015 as Trinidad collected receivables outstanding in 2014, increasing the change in non-cash working capital in 2015.

Liquidity and Capital Resources

<u>As at</u> (CDN\$ thousands)	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>\$ Change</u>
Working capital ⁽¹⁾	61,372	166,502	(105,130)
2019 Notes	620,661	519,759	100,902
Credit facility	89,873	15,000	74,873
Limited partnership loans	2,609	—	2,609
	713,143	534,759	178,384
Less: unamortized debt issue costs	(6,223)	(6,951)	728
Total long-term debt	706,920	527,808	179,112
Total long-term debt as a percentage of assets	31.6%	27.2%	
Total assets	2,236,200	1,941,621	294,579
Total long-term liabilities	783,254	628,047	155,207
Total long-term liabilities as a percentage of assets	35.0%	32.3%	
For the years ended December 31,	2015	2014	\$ Change
Cash provided by operations	215,462	156,519	58,943
Cash used by investing	(269,587)	(331,421)	61,834
Cash provided (used) by financing	34,534	(29,484)	64,018

Notes:

- (1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions" for further details.

For the year ended December 31, 2015, working capital decreased by \$105.1 million when compared to December 31, 2014, due to a decrease in current assets of \$149.3 million partly offset by a decrease in current liabilities of \$44.2 million.

Current assets decreased in the 2015 mainly due to a reduction in accounts receivable as a result of lower activity in 2015 compared to the prior year across all divisions. As well, inventory and prepaid expenses decreased during 2015 as Trinidad's manufacturing division completed work and delivered all remaining external new builds by December 31, 2015. This was slightly offset by the increase in assets held for sale due to property included in this category in 2015 compared to no assets held for sale at December 31, 2014.

Current liabilities decreased in 2015 mainly as a result of a decrease in accounts payable due to lower activity during the period across all divisions, including lower activity on external rig builds. Additionally, dividends payable decreased due to a reduction on the per share dividend for the fourth quarter of 2015 to \$0.01 per share compared to \$0.05 per share in the prior year. These decreases were slightly offset by an increase in deferred revenue due to \$34.3 million received at December 31, 2015 related to the termination of contracts on three rigs with an average remaining contract period of 21 months. The majority of this amount was recognized in the second quarter of 2016. Lastly, current liabilities also increased slightly as a result of the addition of the current portion of long-term debt added through the CanElson Acquisition.

Trinidad's total long-term debt balance at December 31, 2015 increased by \$179.1 million compared to December 31, 2014. This increase was largely due to an increase in the 2019 Notes and an increase in the Credit Facility at December 31, 2015. The 2019 Notes increased entirely as a result of the strengthening in the U.S. to Canadian dollar exchange rate at December 31, 2015, as these notes are held in U.S. funds. The 2019 Notes are translated at each period end and, as such, their aggregate value fluctuates with U.S. to Canadian exchange rates. The 2019 Notes are due on January 15, 2019 and interest is payable semi-annually in arrears on January 15 and July 15. Trinidad has designated the 2019 Notes as a hedge of the U.S. and International Drilling Operations. As a result, unrealized gains and losses on the U.S. dollar 2019 Notes are offset against foreign exchange gains and losses arising from the translation of the foreign subsidiaries and included in the cumulative translation account in other comprehensive income.

Trinidad's total long-term debt balance also increased due to a higher balance owing on the Credit Facility at December 31, 2015 due to higher usage in 2015. As at December 31, 2015, \$65.0 million was drawn on Trinidad's Canadian dollar revolving Credit Facility and US\$18.0 million was drawn on the U.S. dollar revolving facility, compared to \$15.0 million drawn on the Canadian facility and no amounts drawn on the U.S. facility at December 31, 2014.

At December 31, 2015, the Company has available capacity of \$85.0 million on its \$150.0 million Canadian revolving facility and US\$132.0 million on its US\$150.0 million U.S. revolving facility. In addition, Trinidad had \$63.7 million in cash on hand at year end 2015. The Canadian and U.S. revolving facilities require quarterly interest payments that are based on Bankers' Acceptance and LIBOR rates and incorporate a tiered interest rate, which varies depending on the results of the Consolidated Total Debt to Bank EBITDA ratio.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

FINANCIAL HIGHLIGHTS

(CDN\$ thousands)	For the years ended December 31,		
	2014	2013	% Change
Revenue	941,334	845,888	11.3
Revenue, net of third party costs	883,522	791,251	11.7
Operating income ⁽¹⁾	315,159	329,807	(4.4)
Operating income percentage ⁽¹⁾	33.5%	39.0%	(14.1)
Operating income — net percentage ⁽¹⁾	35.7%	41.6%	(14.2)
Adjusted EBITDA ⁽¹⁾	252,046	270,445	(6.8)
Cash provided by operations	156,519	299,013	(47.7)
Net earnings	6,596	70,952	(90.7)
Capital expenditures	276,647	90,260	206.5

Notes:

- (1) See “Non-IFRS Measures Definitions” and “Additional IFRS Measures Definitions” above for further details.

OPERATING HIGHLIGHTS

	For the years ended December 31,		
	2014	2013	% Change
Land Drilling Market			
Operating days ⁽¹⁾			
Canada	12,203	11,585	5.3
United States and International	18,478	18,234	1.3
Rate per operating day ⁽¹⁾			
Canada (CDN\$)	25,638	24,892	3.0
United States and International (CDN\$)	23,873	23,951	(0.3)
United States and International (US\$)	21,749	23,381	(7.0)
Utilization rate – operating day ⁽¹⁾			
Canada	57%	53%	8.5
United States and International	87%	73%	18.4
Utilization rate for service rigs ⁽⁵⁾	0%	0%	—
Number of drilling rigs at period end ⁽⁴⁾			
Canada	53	61	(13.1)
United States and International	47	64	(26.6)
Coring and surface casing rigs ⁽²⁾	—	—	—
Barge Drilling Market			
Operating days ⁽¹⁾	1,049	1,703	(38.4)
Rate per operating day (CDN\$) ⁽¹⁾	37,655	32,388	16.3
Rate per operating day (US\$) ⁽¹⁾	34,424	31,605	8.9
Utilization rate — operating day ⁽¹⁾	57%	93%	(38.9)
Number of barge drilling rigs at period end ⁽⁴⁾	2	2	—
Number of barge drilling rigs under Bareboat Charter			
Agreements at period end ⁽⁴⁾	3	3	—
Joint Venture Operations ⁽³⁾			
Number of drilling rigs at period end	6	—	100.0

Notes:

- (1) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions” for further details.

- (2) In the third quarter of 2013, Trinidad disposed of its 15 remaining coring rigs and all related equipment.
- (3) Trinidad is party to a joint venture with a wholly-owned subsidiary of Halliburton. These rigs are owned by the joint venture.
- (4) Refer to “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results from Operations*” for details on the changes to the rig count.

2014 Overview

Trinidad recorded solid operating results in the fourth quarter and full year 2014 despite, which were overshadowed by falling commodity prices at year end. Activity levels in Canada and the US were higher than in 2013, and the Company’s joint venture made positive contributions to Adjusted EBITDA and net earnings in its first year of operations.

Adjusted EBITDA was \$252.0 million in 2014, down 6.8% from 2013 as a result of lower early termination and standby revenue in 2014 in the U.S. operations, partly offset by stronger operating results in Canada. In addition, higher operating costs in the U.S. and International Drilling Operations as rigs were reactivated and a weaker contribution from the barge rigs negatively impacted Adjusted EBITDA in 2014. Excluding the impact of early termination and standby revenue in both years, Trinidad’s Adjusted EBITDA was \$1.5 million higher for the full year of 2014 compared to the same period of 2013, driven by higher activity and dayrates year over year.

Net earnings was \$6.6 million, respectively, in 2014 down 90.7% from the respective period in 2013. Net earnings lowered in 2014 as a result of lower Adjusted EBITDA discussed above, higher depreciation and amortization expenses, an impairment of property and equipment, partly offset by lower share-based payment expenses, lower income taxes and a gain on sale of property and equipment.

In 2014, commodity prices trended lower as the year progressed, particularly for oil. A growing supply of crude oil in North America and a continuing strong supply coming from OPEC countries resulted in significantly lower prices at the end of 2014 compared to 2013. Lower oil prices began to impact Trinidad’s operations in late 2014; however, the impact was felt more fully in early 2015 as customers cut back drilling programs and activity levels lowered.

In the full year 2014, Canadian industry activity levels averaged 44%, respectively, up from 40% in the same period of 2013. Trinidad maintained its premium over industry activity and its Canadian utilization rate — drilling days increased to 52% for the full year in 2014, compared to 48% for 2013.

During the full year 2014, the U.S. dollar was stronger against the Canadian dollar than during the same period in 2013. Trinidad has a significant portion of its business that operates in U.S. dollars and the change in foreign exchange rates in 2014 had a noticeable, and largely positive impact on the Company’s results. The stronger U.S. dollar positively impacted Adjusted EBITDA generated by Trinidad’s U.S. and International Drilling Operations but also drove increased depreciation expenses and increased the value of Trinidad’s U.S. dollar based 2019 Notes in the full year 2014.

Results from Operations

Canadian Operations

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2014	2013 ⁽⁴⁾	% Change
Operating revenue ⁽¹⁾	312,871	297,696	5.1
Other revenue	1,295	125	936.0
	314,166	297,821	5.5
Operating costs ⁽¹⁾	178,209	170,934	4.3
Operating income ⁽³⁾	135,957	126,887	7.1
Operating income — net percentage ⁽³⁾	43.3%	42.6%	
Operating days ⁽³⁾	12,203	11,585	5.3
Drilling days ⁽³⁾	11,204	10,659	5.1
Rate per operating day (CDN\$) ⁽³⁾	25,638	24,892	3.0
Utilization rate — operating day ⁽³⁾	57%	53%	8.5
Utilization rate — drilling day ⁽³⁾	52%	48%	7.6
CAODC industry average ⁽²⁾	44%	40%	10.0
Number of drilling rigs at period end	53	61	(13.1)

Notes:

- (1) Operating revenue and operating costs for the years ended December 31, 2014 and 2013 exclude third party recovery and third party costs of \$39.8 million and \$32.2 million, respectively.
- (2) CAODC industry average is based on drilling days divided by total days available.
- (3) See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*” for further details.
- (4) During the prior year, Trinidad’s Canadian operations included the Canadian manufacturing division. Effective January 1, 2014, Trinidad has re-evaluated operating segments. Management has determined that the Manufacturing operations is considered a separate operating segment. All prior period segmented information has been reclassified to conform to this new presentation.

Trinidad’s Canadian operations demonstrated strong performance in 2014, recording higher levels of operating revenue and operating income compared to 2013. The division’s improved performance was mainly driven by higher utilization, dayrates and the addition of high specification rigs. These improvements were a reflection of strong industry conditions experienced through 2014; although softening in the market was noted towards the end of 2014 as commodity prices declined. In the second and third quarters of 2014, Trinidad moved rigs into its Canadian operations to meet customer demand, changing the rig mix to include more high performance equipment and increasing the profitability and utilization of the Canadian fleet.

For the year ended December 31, 2014, operating revenue and operating income increased from the same period in the prior year due to higher utilization, dayrates and the addition of high specification rigs in the second half of the year. This impact was slightly offset by the absence of the preset and coring rigs, which were sold in the third quarter of 2013. These rigs generated \$9.3 million in operating revenue in the first half of 2013 compared to nil in 2014. Operating days and utilization were higher in 2014 than 2013, driven by the high-graded fleet and improved industry demand.

Operating income — net percentage increased in 2014 driven by improved profitability from the high-graded fleet, partially offset by weaker customer demand in the oil sands sector in the first quarter of 2014. In addition, the Company’s continued focus on cost containment reduced operating costs per day.

Trinidad’s Canadian rig count totaled 53 rigs at the end of 2014, eight fewer than at the end of 2013. During 2014, the Company reviewed its fleet and identified 13 lower specification rigs to be removed from its fleet and

decommissioned. In the current market conditions, the Company deemed that these rigs were no longer competitive, and were not economical to upgrade. The Company recognized impairment expense of \$33.8 million as a result of these reviews. Earlier in 2014, the Company relocated two rigs from its U.S. operations and three rigs from its Mexican operations to its Canadian operations.

United States and International Operations

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2014	2013 ⁽³⁾	% Change
Operating revenue ⁽¹⁾	480,240	490,375	(2.1)
Other revenue	451	594	(24.1)
	480,691	490,969	(2.1)
Operating costs ⁽¹⁾	308,533	288,085	7.1
Operating income ⁽¹⁾	172,158	202,884	(15.1)
Operating income — net percentage ⁽²⁾	35.8%	41.3%	
Land Drilling Rigs			
Operating days ⁽²⁾	18,478	18,234	1.3
Drilling days ⁽²⁾	16,038	15,841	1.2
Rate per operating day (CDN\$) ⁽²⁾	23,873	23,951	(0.3)
Rate per operating day (US\$) ⁽²⁾	21,749	23,381	(7.0)
Utilization rate — operating day ⁽²⁾	87%	73%	18.4
Utilization rate — drilling day ⁽²⁾	75%	64%	17.5
Number of drilling rigs at period end	47	64	(26.6)
Barge Drilling Rigs			
Operating days ⁽²⁾	1,049	1,703	(38.4)
Rate per operating day (CDN\$) ⁽²⁾	37,655	32,388	16.3
Rate per operating day (US\$) ⁽²⁾	34,424	31,605	8.9
Utilization rate — operating day ⁽²⁾	57%	93%	(38.9)
Number of barge drilling rigs at period end	2	2	—
Number of barge drilling rigs under Bareboat Charter Agreements at period end	3	3	—

Notes:

- (1) Operating revenue and operating costs for the years ended December 31, 2014 and 2013 exclude third party recovery and third party costs of \$16.6 million and \$21.6 million, respectively.
- (2) See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*” for further details.
- (3) During the prior year, Trinidad’s U.S. and International Drilling Operations included the US manufacturing division. Effective January 1, 2014, Trinidad has re-evaluated operating segments. Management has determined that the Manufacturing operations is considered a separate operating segment. All prior period segmented information has been reclassified to conform to this new presentation.

Operating days and utilization increased in 2014 compared to the previous year; however, lower early termination and standby revenue than received in 2013 caused operating revenue to lower year over year. Early termination and standby revenue in 2014 was \$14.2 million (the majority of which was recognized in the first quarter) compared to \$34.1 million in 2013 (the majority of which was recognized in the fourth quarter). Excluding the impact of early termination and standby revenue from both years, operating revenue in 2014 was \$466.0 million, \$9.7 million higher than in 2013. In addition, operating revenue was negatively impacted in 2014 by lower activity in the barge operations and the impact from the Mexican rigs which were idle in 2014 but were active in the first half of 2013. This was partly offset by the favorable impact of foreign exchange.

In 2014, total operating days increased by 244 days in the U.S. and international division despite having fewer rigs in the fleet, driven by the strong demand from customers for most of 2014. For the year ended December 31, 2014, dayrates decreased by US\$1,632 per day compared to the prior year. The decrease reflected the lower early termination and standby revenue in 2014. Excluding the impact of early termination and standby revenue, dayrates were US\$455 per day lower in 2014 than 2013. Increasing demand in the second and third quarters of 2014 in the U.S. allowed Trinidad to re-activate its lower specification rigs, changing the active rig mix and resulting in a lower average dayrate compared to the previous periods. Additionally, several high dayrate rigs that received termination revenue in late 2013 and early 2014 were not fully utilized in the first half of 2014, lowering the overall average dayrate. These rigs had all returned to work in the third quarter of 2014 and continued through the fourth quarter of 2014. Softening in the market was noted towards the end of 2014 consistent with the decline in commodity prices.

Operating income and operating income — net percentage declined in 2014. The decline in revenue, discussed above, was further impacted by increased operating expenses. In the first half of 2014, Trinidad re-activated a number of rigs in the U.S. land drilling division, which had significant repairs and maintenance costs for the Company. In addition, Trinidad incurred costs related to the re-deployment of its Mexican rigs to Canada in the current year. Excluding the impact of the early termination and standby revenue in 2013, Mexican rig redeployment costs and the barge operations, operating income — net percentage for Trinidad's underlying US land drilling business was in line with 2013.

At December 31, 2014, Trinidad's U.S. and international rig count totaled 47 rigs, 17 fewer rigs than at the same time in 2013. During 2014, the Company reviewed its fleet and identified nine rigs to be removed from the fleet and decommissioned, as it was determined that in the current market conditions these rigs were no longer competitive and were not economical to upgrade. The Company recognized impairment expense of \$22.9 million as a result of these reviews. In addition, the rig count also lowered during 2014 as a result of two U.S. rigs and three Mexican rigs being redeployed to the Company's Canadian drilling operations. The rig count was also reduced year over year as three rigs were sold to the joint venture in the first quarter of 2014.

While Trinidad's barge drilling rigs had higher dayrates in 2014 compared to 2013, an increase of US\$2,819 per day, an oversupply of barge rigs in the market and lower commodity prices had a significant negative impact on activity levels in the second half of 2014. Lower activity levels resulted in much lower revenue generation and profitability for the year. As a result of this, the Company recorded an impairment expense totaling \$20.8 million for the year ended December 31, 2014 relating to the barge rigs and related equipment.

Joint Venture Operations

Amounts are presented at 100% of the value included in the statement of operations and comprehensive income for Trinidad Drilling International (TDI); Trinidad owns 60% of the shares of TDI.

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2014	2013	% Change
Operating revenue	42,428	—	—
Other revenue	—	—	—
	42,428	—	—
Operating costs	26,149	46	N/A
Operating income ⁽¹⁾	16,279	(46)	N/A
Operating income — net percentage ⁽¹⁾	38.4%	—	—
Number of drilling rigs at period end	6	—	100.0
Number of active drilling rigs at period end	4	—	100.0

Notes:

- (1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions" for further details.

During 2013, Trinidad signed a joint venture agreement with Halliburton with a right of first look at all drilling projects outside of Canada and the United States. The joint venture currently has operations in Saudi Arabia and Mexico. Additionally, the joint venture continues to look into future growth opportunities in other international markets. The joint venture conducts business under the name TDI through separately incorporated entities.

Trinidad owns 60% of the shares of TDI, and each of Trinidad and Halliburton have equal voting rights with respect to the operations of the company. TDI is accounted for using the equity method of accounting, whereby Trinidad takes 60% of the net income recorded as (gain) loss from investment in joint venture.

During the year ended December 31, 2014, TDI took ownership of three upgraded rigs purchased from Trinidad's US land drilling division and three new build rigs purchased from Trinidad's manufacturing division. Four of these rigs were drilling in 2014.

For the year ended December 31, 2014, TDI recorded operating income and operating income — net percentage of \$16.3 million and 38.4%, respectively. As at December 31, 2014, TDI had four rigs drilling in Saudi Arabia, with two rigs mobilizing to Mexico. Each of the rigs in Mexico will be high performance, 3,600 horsepower, AC, walking rigs, operating under three-year, take-or-pay contracts with an optional one year extension. As with any operations that are in initial start-up phase, economies of scale are gained as additional rigs are added to the operations and more normalized revenue and costs are established.

The gain from investment in joint venture reflects Trinidad's share of TDI's operating income, as noted above, less general and administrative and depreciation and amortization expenses that largely offset the operating income for the year ended December 31, 2014. For the year ended December 31, 2014, the Adjusted EBITDA from investment in joint venture was \$1.8 million, which is \$2.5 million higher than 2013.

Manufacturing Operations

(CDN\$ thousands except percentage and operating data)	For the years ended December 31,		
	2014	2013	% Change
Operating revenue ⁽¹⁾	88,614	2,461	3,500.7
Other revenue	51	—	—
	88,665	2,461	3,502.8
Operating costs ⁽¹⁾	83,075	3,252	2,454.6
Operating income ⁽²⁾	5,590	(791)	806.7
Operating income — net percentage ⁽²⁾	6.3%	(32.1%)	

Notes:

- (1) For the years ended December 31, 2014, excluded from operating revenue and operating costs are downstream elimination entries of \$96.2 million and \$89.6 million, respectively (2013, nil and nil, respectively). These entries remove Trinidad's percentage of profits related to manufacturing of rigs for the joint venture.
- (2) See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*" for further details.

Effective January 1, 2014, Trinidad reviewed all existing operating segments in order to better present the Company's operations based on geographic location, services provided and any material changes to operations. In the prior year, Trinidad's manufacturing operations mainly performed work internally; therefore, the prior year operating income includes a loss based on costs incurred by the manufacturing division mainly related to raw materials consumed during construction of rigs for internal use. Towards the end of 2013 and early 2014, Trinidad's manufacturing division signed contracts to build rigs for external parties, including the Company's joint venture partner and the joint venture company.

As the manufacturing operations records operating revenue and costs, management believes that presenting this division as a separate operating segment from the Company's drilling operations is more useful to users as it provides a more accurate representation of the margins recorded on Trinidad's drilling operations. Prior period segmented information has been reclassified to conform to the 2014 presentation.

The purpose of the manufacturing operations is to support rig builds, rig maintenance and re-certifications for all of Trinidad's divisions, including all associates and joint ventures. Therefore, management does not commit to building a rig with the intention to earn significant profits from this business. All contracts are based on a cost-plus formula which is calculated in order for Trinidad to break even on rig builds when all costs, including general and administrative expenses, are factored in. Contracts are negotiated depending on the Company's varying involvement, which can range from full scale design and manufacturing to project management with a large degree of outsourcing.

Towards the end of 2013 and into 2014, Trinidad signed contracts for a total of five new builds; one rig for the joint venture to operate in Saudi Arabia, and four rigs for the joint venture to operate in Mexico.

For the year ended December 31, 2014, Trinidad recognized revenue and expenses related to the Saudi and Mexico rig builds and the training rig, compared to minimal external new build revenue or expenses recognized in 2013.

Trinidad's manufacturing operations delivered the new Saudi rig to the joint venture in the third quarter of 2014 and delivered two new rigs to Mexico at the end of 2014.

General and Administrative

For the year ended December 31, 2014, total G&A expenses decreased by \$5.4 million or 7.5%, compared to 2013.

For the year ended December 31, 2014, Other G&A expenses increased by \$5.7 million compared to the prior year as a result of costs associated with establishing the Company's joint venture and subsequent international growth. Costs related to professional fees, administration salary expenses, office expenses, and travel expenses have increased, as a result of the international expansion. This was partly offset by a \$1.9 million bad debt expense in 2013 compared to nil in the current year.

Share-based payment expense decreased by \$11.6 million from 2013 to 2014. The decrease was mainly due to a lower share price at the end of 2014 which was slightly offset by an increase in the number of PSUs outstanding during 2014. In addition, in 2014 the number of DSUs declined mainly due to units exercised by retiring directors. Annual grants for both PSUs and DSUs generally occur in the first quarter of the 2015 fiscal year.

Third party recoverable costs relate to costs incurred by Trinidad on behalf of the joint venture. As these costs are fully recoverable, Trinidad records a related revenue entry for this same amount, causing no net income effect.

Depreciation, Amortization and Sale of Property and Equipment

For the year ended December 31, 2014, depreciation expense increased by \$7.9 million or 6.8% as each of Trinidad's land drilling operations in Canada and the U.S. had higher operating days compared to the prior year. The increased strength of the U.S. dollar compared to the Canadian dollar from 2013 to 2014 increased the amount of depreciation recognized in 2014 on rigs included in the U.S. and International Drilling Operations.

The amortization expense relates to the intangible assets and has remained consistent from 2013 to 2014.

For the year ended December 31, 2014, a total gain of \$8.3 million was recognized compared to a loss of \$1.3 million in 2013. The gain in 2014 was mostly related to the sale of three rigs from the U.S. and International

Drilling Operations to the Joint Venture Operations. The significant loss recognized in 2013 was driven mainly by the sale of certain rig components included in the U.S. and international operations that were being underutilized by the Company.

Foreign Exchange

For the year ended December 31, 2014, Trinidad recorded a foreign exchange loss of \$5.0 million compared to a loss of \$1.3 million in 2013. Foreign exchange gains and losses are the result of foreign currency fluctuations during the period and the timing of when items are settled. During 2014, Trinidad had larger U.S. dollar liabilities in its Canadian operations and the U.S. dollar was stronger than the Canadian dollar through the year, which resulted in an overall loss for the period.

The Company continues to utilize a net investment hedge of a portion of its foreign subsidiaries against its U.S. dollar denominated 2019 Notes which minimizes the foreign exchange impacts included in the cumulative translation account in other comprehensive income.

Impairment

During the year ended December 31, 2014, in light of the falling commodity prices, Trinidad determined that certain active and decommissioned assets were deemed no longer competitive and were not economical to upgrade. As such, management decided to decommission certain rigs and related equipment for scrap value resulting in impairment losses of \$56.7 million (of which \$20.6 million was recognized in the second quarter of 2014 and \$36.1 million was recognized in the fourth quarter of 2014). As well, management determined that the carrying value of certain assets related to the barge-drilling business in the U.S. and International Drilling Operations exceeded the recoverable amounts and Trinidad recognized an impairment loss totaling \$20.8 million relating to these assets.

In 2013, as a result of the pending sale of the Canadian operation's coring and pre-set rigs, which was completed in the third quarter of 2013, all coring and preset rig assets were reclassified to assets held for sale. As a result, an impairment loss of \$0.1 million was recorded.

Finance Costs

(CDN\$ thousands except percentage)	For the years ended December 31,		
	2014	2013	% Change
Interest on long-term debt	37,314	38,130	(2.1)
Accretion on 2019 Notes	431	371	16.2
Deferred financing costs on long-term debt	1,786	3,867	(53.8)
Finance costs	39,531	42,368	(6.7)
% of revenue	4.2%	5.0%	

For the year ended December 31, 2014, financing costs decreased by \$2.8 million, or 6.7%, compared to the prior year. The decrease was mainly driven by reduced debt levels through most of 2014 as the Company's Credit Facilities were not drawn on for significant periods of 2014, while balances were drawn during 2013. The decrease in deferred financing costs is a result of the revolver levels at nil for the majority of 2014, compared to the prior year which had balances outstanding during the year.

Income Taxes

Current tax expense for the year ended December 31, 2014 was \$4.6 million, an increase when compared to \$1.1 million recorded in 2013. This increase is due to increased taxability in the U.S. and International Drilling

Operation as the result of the sale of rigs from the international operations as well as increased U.S. state taxability.

Deferred tax expense decreased to a recovery of \$0.5 million compared to an expense of \$23.8 million in 2013. The decrease is due to a recovery of future taxes in international operations as the rig sales caused the taxes to be currently payable along with the deferred tax effect of impairments in the Canadian and U.S. operations.

For the year ended December 31, 2014, Trinidad's consolidated net earnings and net earnings per share (diluted) decreased by \$64.4 million and \$0.53 per share compared to the prior year. The decrease in 2014 was largely due to impairment expense of \$77.5 million recognized in the year driven by the softening market conditions in response to lower commodity prices. The year ended December 31, 2013 only included a relatively minor impairment expense of \$0.1 million. Additionally, in 2014, Trinidad recorded lower operating income, due to lower early termination and standby revenue in 2014 compared to the prior year combined with higher costs associated with rig reactivation and rig redeployment in the first half of 2014. This was slightly offset by a gain on sale recorded in 2014 and larger net recovery position for tax expenses in the fourth quarter of 2014, combined with a reduction in G&A expense in 2014.

For the year ended December 31, 2014, cash provided by operations decreased by \$142.5 million while funds provided by operations decreased by \$14.2 million compared to 2013. The declines were due to lower operating income in the fourth quarter of 2014 as less early termination and standby revenue was recognized in 2014 compared to the prior year. As well, there was significantly higher activity in the Company's rig manufacturing operations at the end of 2014 compared to 2013. The higher manufacturing revenue had a significant impact on accounts receivable, inventory, prepaid expense, accounts payable and accrued liabilities and deferred revenue and customer deposits.

Further details on all of the above mentioned changes are outlined in previous sections of the Annex A.

Liquidity and Capital Resources

As at (CDN\$ thousands)	December 31, 2014	December 31, 2013	\$ Change
Working capital ⁽¹⁾	166,502	303,120	(136,618)
2019 Notes	519,759	476,107	43,652
Credit facility	15,000	—	15,000
	534,759	476,107	58,652
Less: unamortized debt issue costs	(6,951)	(7,437)	486
Total long-term debt	527,808	468,670	59,138
Total long-term debt as a percentage of assets	27.2%	25.6%	
Total assets	1,941,621	1,827,496	114,125
Total long-term liabilities	628,047	564,095	63,952
Total long-term liabilities as a percentage of assets	32.3%	30.9%	
For the year ended December 31	2014	2013	\$ Change
Cash provided by operations	156,519	299,013	(142,494)
Cash used by investing	(331,421)	(103,789)	(227,632)
Cash (used) provided by financing	(29,484)	64,507	(93,991)

Notes:

- (1) See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — IFRS Measures Definitions*” for further details.

For the year ended December 31, 2014, working capital decreased by \$136.6 million when compared to the prior year, due to a decrease in current assets of \$108.2 million and an increase in current liabilities of \$28.4 million.

Current assets decreased during 2014 as cash balances received in the prior year from a share issuance and customer deposits were used for purchases of property and equipment, manufacturing of external rig builds and to fund Trinidad’s investment in TDI. Offsetting this are increased accounts receivable from the increased activity in the land drilling and manufacturing operations, inventory relating to progress on external rig builds, and prepaid expenses for the long lead items needed for rig builds.

Current liabilities increased in 2014 mainly related to an increase in accounts payable related to higher activity at year end for the land drilling operations in Canada and the U.S., combined with activity on external rig builds. Deferred revenue was reduced as the manufacturing division moved closer to completing its external rig builds and recognized revenue for amounts collected in advance.

Trinidad’s total long-term debt balance increased in 2014 by \$59.1 million compared to 2013. This increase was largely due to the increase in the 2019 Notes at December 31, 2014, as a result of the increase in the U.S. to Canadian dollar exchange rate in 2014 versus the prior year, as these notes are held in U.S. funds. The 2019 Notes are translated at each period end, as such their value will fluctuate with exchange rates. The 2019 Notes are due January 15, 2019 and interest is payable semi-annually in arrears on January 15 and July 15. In addition, \$15.0 million was drawn on Trinidad’s Canadian dollar revolving Credit Facility. No amounts were drawn at December 31, 2013.

2014 Capital Expenditures

During the year ended December 31, 2014, a total of \$276.6 million was spent on capital expenditures, compared to \$90.3 million in 2013. The 2014 capital expenditures included new build capital associated with the Company’s Canadian new build that mobilized in the beginning of 2015 and an existing rig purchased during the third quarter of 2014. The purchased rig was moved to the Middle East and is currently undergoing upgrades. In addition, costs incurred to upgrade the three U.S. land drilling rigs that were sold to Trinidad’s joint venture for operations in Saudi Arabia are included in the new build capital expenditures. For 2014, Trinidad spent \$76.8 million on upgrading existing equipment including adding moving systems, top drives and mud systems, to ensure the Company’s rigs remain competitive in the current market. In addition, Trinidad spent \$45.1 million on maintenance and infrastructure projects in 2014.

Trinidad spent \$334.6 million, net of proceeds received from the sale of rigs into the joint venture, on internal capital projects and its portion of the joint venture projects. Costs related to the joint venture rig build projects were accounted for as operating expenses in Trinidad’s manufacturing operations.

As of December 31, 2014, three upgraded rigs and one new build rig were delivered to the joint venture for operations in Saudi Arabia. All four rigs contributed to operations in the fourth quarter of 2014. Work also progressed in the fourth quarter of 2014 on the four joint venture rigs Trinidad is constructing for operation in Mexico, with two being delivered at the end of the fourth quarter of 2014.

Critical Accounting Judgment and Estimates

The preparation of the unaudited condensed consolidated interim financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by Trinidad are believed to be reasonable under current circumstances, actual results could differ. The Company has applied significant judgments on a basis consistent with the prior year.

New Standards Not Yet Adopted

A number of new standards and amendments to existing standards have been issued by the International Accounting Standards Board that are effective after September 30, 2016 and, therefore, have not been applied to these financial statements. These new standards and amendments, and their anticipated impact on Trinidad's condensed consolidated interim financial statements once they are adopted, are as follows:

IFRS 9 — Financial Instruments: An amendment to IFRS 9 that includes guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective for annual periods beginning on or after January 1, 2018. Trinidad is currently assessing the impact of the amendment on its consolidated financial statements.

IFRS 15 — Revenue from Contracts with Customers: IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to record revenue from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 — Leases or other IFRS standards. Under IFRS 15, revenue is to be recognized to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard is effective for annual periods beginning on or after January 1, 2018, using either a full retrospective approach or a modified retrospective approach. Trinidad is currently evaluating the impact of the new standard.

IFRS 16 — Leases: IFRS 16 replaces the previous guidance on lease recognition and establishes principles for recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however will remain largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 — Revenue from Contracts with Customers, has also been applied. Trinidad is currently assessing the impact of the new standard on its consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

There have been no significant changes in the Company's disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") for the three and nine months ended September 30, 2016. In addition, no material weaknesses or significant deficiencies have been identified in the design and operating effectiveness of these controls which could materially affect, or are reasonably likely to affect, Trinidad's ICFR.

Related Party Transactions

Trinidad engages the law firm of Blake, Cassels & Graydon LLP to provide legal advice. One partner of this law firm is an officer of the Company. During the three and nine months ended September 30, 2016, Trinidad incurred legal fees of \$0.1 million and \$0.7 million, respectively (2015 — \$0.8 million and \$1.2 million, respectively,) to Blake, Cassels & Graydon LLP. At September 30, 2016, \$0.1 million was due to Blake, Cassels & Graydon LLP (December 31, 2015 — less than \$0.1 million).

Trinidad is party to a joint venture arrangement with a wholly-owned subsidiary of Halliburton to operate drilling rigs outside of Canada and the U.S. through a jointly owned entity. During the three and nine months ended September 30, 2016, Trinidad recorded revenue from Halliburton of nil and \$0.3 million (2015 — nil and \$2.1 million).

Related Party Rig Build Transactions

Contracts are negotiated depending on the Company's varying involvement, which can range from full scale design and manufacturing to project management with a large degree of outsourcing. Pricing is determined depending on the nature of the transaction, and negotiations by both parties, and generally falls into three categories:

- Shared services — TDI, and the shareholders of TDI, signed a shared services agreement that outlines the costs that will be reimbursed and the rates based on an employee time allocation assessment.
- Newly built equipment — Trinidad's manufacturing division will quote a cost to complete the build based on requested rig specifications. The relevant overhead allocation and markup are applied based on the original shareholders agreement signed between Halliburton and Trinidad.
- Sale of pre-existing equipment — This equipment is sold as a gain/loss on sale to TDI based on third party valuations (such as the three rigs sold from Trinidad's U.S. drilling operations).

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Consolidated Statements of Financial Position

As at
(\$ thousands) - unaudited

Assets

Current Assets

	Notes	September 30, 2016	December 31, 2015
Cash and cash equivalents	4	29,344	63,686
Accounts receivable		68,858	113,870
Inventory		8,377	7,136
Prepaid expenses		5,792	7,423
Assets held for sale	5	—	2,744
		<u>112,371</u>	<u>194,859</u>
Property and equipment	6	1,499,306	1,656,268
Intangible assets and goodwill	7	33,631	35,048
Deferred income taxes		63,024	54,367
Investment in joint ventures	8	240,760	295,658
		<u>1,949,092</u>	<u>2,236,200</u>

Liabilities

Current Liabilities

Accounts payable and accrued liabilities		63,220	93,795
Dividends payable		—	2,221
Deferred revenue and customer deposits		460	34,862
Current portion of long-term debt	9	2,237	2,609
		<u>65,917</u>	<u>133,487</u>
Long-term debt	9	583,478	704,311
Deferred income taxes		50,987	60,495
Non-controlling interest	10	10,724	18,448
		<u>711,106</u>	<u>916,741</u>

Shareholders' Equity

Common shares	11	1,374,656	1,374,656
Contributed surplus		65,031	64,884
Accumulated other comprehensive income		163,060	203,947
Deficit		(364,761)	(324,028)
		<u>1,237,986</u>	<u>1,319,459</u>
		<u>1,949,092</u>	<u>2,236,200</u>

Commitments and contingencies 15

(See Notes to the condensed consolidated interim financial statements)

Consolidated Statements of Operations and Comprehensive Income and Loss

(\$ thousands) - unaudited	Notes	Three months ended September 30, 2016		Nine months ended September 30, 2015	
Revenue					
Oilfield service revenue		66,560	123,766	267,435	412,111
Other revenue		400	519	1,651	1,783
		66,960	124,285	269,086	413,894
Expenses					
Operating expense		43,981	72,276	137,749	247,707
General and administrative		11,111	12,478	41,764	44,648
Depreciation and amortization	6 & 7	42,317	26,648	128,043	69,953
Foreign exchange	18	(340)	3,318	(2,676)	9,517
Gain on sale of assets	6	(8,647)	(635)	(10,575)	(2,119)
Impairment of property and equipment	6	—	26,937	—	26,937
Impairment of goodwill	7	—	111,847	—	111,847
		88,422	252,869	294,305	508,490
Loss (gain) from investment in joint ventures ⁽¹⁾	8	18,497	(2,824)	6,730	(4,741)
Finance and transaction costs	18	12,380	17,947	39,779	42,267
Non-controlling interest fair value adjustment	10	(5,944)	—	(5,944)	—
(Loss) before income taxes		(46,395)	(143,707)	(65,784)	(132,122)
Income taxes					
Current		(973)	134	183	3,371
Deferred		(9,369)	(56,223)	(24,432)	(58,538)
		(10,342)	(56,089)	(24,249)	(55,167)
Net (loss)		(36,053)	(87,618)	(41,535)	(76,955)
Other comprehensive (loss) income					
Foreign currency translation adjustment for foreign operations, net of income tax	19	10,926	58,980	(40,887)	114,870
Foreign currency translation adjustment for non-controlling interest, net of income tax		70	279	(253)	279
		10,996	59,259	(41,140)	115,149
Total comprehensive (loss) income		(25,057)	(28,359)	(82,675)	38,194
Net (loss) attributable to:					
Shareholders of Trinidad		(35,780)	(87,540)	(40,733)	(76,877)
Non-controlling interest	10	(273)	(78)	(802)	(78)
Total comprehensive (loss) income attributable to:					
Shareholders of Trinidad		(24,854)	(28,560)	(81,620)	37,993
Non-controlling interest	10	(203)	201	(1,055)	201
Earnings per share					
Net (loss)					
Basic / Diluted	13	(0.16)	(0.48)	(0.18)	(0.51)

(1) Loss (gain) from investment in joint ventures includes Trinidad's portion of the net income in all joint ventures as well as the fair value adjustment related to the TDI joint venture as this is held as a financial asset.

(See Notes to the condensed consolidated interim financial statements)

Consolidated Statement of Changes in Equity

For nine months ended September 30, 2016 and 2015

(\$ thousands) - unaudited	Notes	Common shares	Contributed surplus	Accumulated other comprehensive income ⁽¹⁾	(Deficit)	Total equity
Balance at December 31, 2015		1,374,656	64,884	203,947	(324,028)	1,319,459
Share-based payment expense		—	147	—	—	147
Total comprehensive (loss) income	19	—	—	(40,887)	(40,733)	(81,620)
Balance at September 30, 2016		1,374,656	65,031	163,060	(364,761)	1,237,986
Balance at December 31, 2014		1,093,426	59,005	62,470	(79,010)	1,135,891
Shares repurchased through normal course issuer bid	11	(14,015)	5,665	—	—	(8,350)
Share-based payment expense		—	181	—	—	181
Total comprehensive (loss) income	19	—	—	114,870	(76,877)	37,993
Dividends		—	—	—	(24,447)	(24,447)
Share issuance (net)	11	295,245	—	—	—	295,245
Balance at September 30, 2015		1,374,656	64,851	177,340	(180,334)	1,436,513

(1) Accumulated other comprehensive income consists of the foreign currency translation adjustment. All amounts will be reclassified to profit or loss when specific conditions are met.

(See Notes to the condensed consolidated interim financial statements)

Consolidated Statements of Cash Flows

For nine months ended September 30,
(\$ thousands) - unaudited

	Notes	2016	2015
Cash provided by (used in)			
Operating activities			
Net (loss)		(41,535)	(76,955)
Adjustments for:			
Depreciation and amortization		128,043	69,953
Foreign exchange		(2,676)	9,517
Gain on sale of assets	6	(10,575)	(2,119)
Impairment of property and equipment	6	—	26,937
Impairment of goodwill	7	—	111,847
Loss (gain) from investment in joint ventures ⁽¹⁾	8	6,730	(4,741)
Finance and transaction costs		39,779	42,267
Non-controlling interest fair value adjustment		(5,944)	—
Income taxes		(24,249)	(55,167)
Interest income		(2)	(32)
Other ⁽²⁾		7,262	2,392
Income taxes paid		(2,012)	(4,729)
Income taxes recovered		126	3,208
Interest paid		(49,927)	(44,794)
Interest received		2	32
Funds provided by operations		45,022	77,616
Change in non-cash operating working capital	20	(6,729)	31,293
Cash provided by operations		38,293	108,909
Investing activities			
Purchase of property and equipment		(38,345)	(113,556)
Proceeds from disposition of assets ⁽³⁾		17,848	5,481
Net investment in joint ventures	8	9,838	(50,759)
Distribution and dividends received from joint venture	8	21,509	—
Acquisition of CanElson (net)	11	—	(70,911)
Purchase of intangibles	7	—	(1,082)
Change in non-cash working capital	20	8,967	25,568
Cash provided (used) by investing		19,817	(205,259)
Financing activities			
Proceeds from long-term debt		130,188	144,888
Repayments of long-term debt		(218,971)	(75,000)
Repurchase of shares	11	—	(8,350)
Dividends paid		(2,221)	(20,100)
Finance costs		(661)	(211)
Cash (used) provided by financing		(91,665)	41,227
Cash flow from operating, investing and financing activities		(33,555)	(55,123)
Effect of translation of foreign currency cash		(787)	8,788
Decrease in cash for the period		(34,342)	(46,335)
Cash and cash equivalents - beginning of period		63,686	71,062
Cash and cash equivalents - end of period		29,344	24,727

(1) Loss (gain) from investment in joint ventures includes Trinidad's portion of the net income in all joint ventures as well as the fair value adjustment related to the TDI joint venture as this is held as a financial asset.

(2) Other includes share-based payment expense and elimination of downstream transactions in the Manufacturing Operations net earnings.

(3) Proceeds from disposition of assets in 2016 includes \$2.8 million related to the disposition of a non-drilling division.

(See Notes to the condensed consolidated interim financial statements)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. STRUCTURE OF THE CORPORATION

Organization

Trinidad Drilling Ltd. (“Trinidad” or the “Company”) is incorporated under the laws of the Province of Alberta, Canada. The Company was formed by way of an arrangement under the Business Corporations Act of Alberta pursuant to an arrangement agreement effective March 10, 2008 between the Company and Trinidad Energy Services Income Trust. Trinidad’s principal place of business is located at 1000, 585 - 8th Avenue SW, Calgary, Alberta.

Operations

Trinidad’s divisions currently operate in the drilling sector of the oil and natural gas industry, with operations in Canada, the United States (US) and the United Arab Emirates. In addition, through joint venture arrangements, Trinidad operates drilling rigs in Saudi Arabia and Mexico, and is currently assessing operations in other international markets. Trinidad is a corporation focused on sustainable growth that trades on the Toronto Stock Exchange under the symbol TDG.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements. These condensed consolidated interim financial statements were prepared using International Accounting Standard (IAS) 34 - Interim Financial Reporting as at and for the period ended September 30, 2016. These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors as of November 2, 2016.

These condensed consolidated interim financial statements were prepared by management and follow the same accounting policies and methods as the audited consolidated financial statements as at and for the year-ended December 31, 2015, except as described in Note 3. These condensed consolidated interim financial statements do not contain all of the disclosures required for the annual consolidated financial statements. As a result, these condensed consolidated interim financial statements should be read in conjunction with the Company’s previous annual consolidated financial statements for the year-ended December 31, 2015, prepared in accordance with IFRS as issued by the IASB.

Measurement basis

These condensed consolidated interim financial statements are presented in Canadian dollars, assuming the Company will continue as a going concern for the foreseeable future. These condensed consolidated interim financial statements are prepared on a historical cost basis except as specifically noted within these notes.

Use of judgment and estimates

The preparation of the unaudited condensed consolidated interim financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by Trinidad are believed to be reasonable under current circumstances, actual results could differ. The Company has applied significant judgments on a basis consistent with the prior year.

Seasonality

Trinidad operates a substantial number of rigs in western Canada; therefore, operations are impacted by weather and seasonal factors. The winter season is typically a busy period as oil and natural gas companies take advantage of frozen ground conditions to move drilling rigs into regions that might otherwise be inaccessible to heavy equipment due to swampy conditions. Springtime normally encompasses a slow period referred to as spring break-up. During this period, melting conditions result in temporary municipal road bans that effectively prohibit the movement of drilling rigs. The remainder of the year is usually representative of average activity levels.

Trinidad's expansion to the US and international markets has reduced its overall exposure to the seasonal factors that are present in its Canadian operations. These seasonal conditions typically limit Canadian drilling activity, whereas in the US and international areas, operators have more flexibility to work throughout the year. The activity in the US and international operations has allowed Trinidad to better manage its business with more sustainable cash flows throughout the annual cycle. However, industry conditions have an affect on how seasonality effects Trinidad's activity.

3. SIGNIFICANT ACCOUNTING POLICIES

New standards not yet adopted

A number of new standards and amendments to existing standards have been issued by the IASB that are effective after September 30, 2016 and, therefore, have not been applied to these financial statements. These new standards and amendments, and their anticipated impact on Trinidad's condensed consolidated interim financial statements once they are adopted, are as follows:

IFRS 9 - Financial Instruments: An amendment to IFRS 9 that includes guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective for annual periods beginning on or after January 1, 2018. Trinidad is currently assessing the impact of the amendment on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers: IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to record revenue from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 - Leases or other IFRS standards. Under IFRS 15, revenue is to be recognized to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard is effective for annual periods beginning on or after January 1, 2018, using either a full retrospective approach or a modified retrospective approach. Trinidad is currently evaluating the impact of the new standard.

IFRS 16 - Leases: IFRS 16 replaces the previous guidance on lease recognition and establishes principles for recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and

finance leases. Lessor accounting however will remain largely unchanged and the distinction between operating and finance leases is retained. The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 - Revenue from Contracts with Customers, has also been applied. Trinidad is currently assessing the impact of the amendment on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

<u>As at</u> <u>(\$ thousands)</u>	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Cash and cash equivalents	29,344	63,686

Cash and cash equivalents are comprised of cash at bank and cash on hand, less cheques in transit, and short-term investments and similar instruments that have a maturity of three months or less at the date of acquisition. The bank accounts are tied to a master netting agreement, and as such, are disclosed as a total consolidated balance on the consolidated statements of financial position. There is only one bank account that is excluded from the master netting agreement; the balance of this account at September 30, 2016 was \$4.4 million (December 31, 2015 - \$0.9 million).

Available within Trinidad's credit facility is a \$10.0 million Canadian bank overdraft, and a \$10.0 million US bank overdraft. Trinidad uses the bank overdraft as part of its short-term cash management strategy, to minimize the requirement of carrying cash on hand to cover outstanding cheques and deposits. The bank overdraft is subject to the same terms and conditions as the revolving facility (note 9).

5. ASSETS HELD FOR SALE

During the year ended December 31, 2015, Trinidad identified property included in the Canadian division that was being underutilized and as such determined that the maximum value for this asset would only be realized through a sales transaction. As of December 31, 2015, this asset was reclassified to assets held for sale. Subsequent to December 31, 2015, this asset has been disposed of (note 6).

6. PROPERTY AND EQUIPMENT

Property and equipment as at and for the periods ended September 30, 2016 and December 31, 2015 are as follows:

<u>(\$ thousands)</u>	<u>Rigs and related equipment</u>	<u>Automotive and other equipment</u>	<u>Buildings</u>	<u>Construction equipment</u>	<u>Land</u>	<u>Assets under construction</u>	<u>Total</u>
Cost							
Balance as at January 1, 2015	<u>1,995,441</u>	<u>26,749</u>	<u>50,140</u>	<u>3,465</u>	<u>11,268</u>	<u>217,641</u>	<u>2,304,704</u>
Additions/transfers	267,081	8,867	—	147	—	(150,695)	125,400
CanElson additions	362,807	1,900	3,500	—	2,000	15,658	385,865
Disposals	(22,174)	(6,239)	(1,138)	—	(506)	132	(29,925)
Assets held for sale	—	—	(1,750)	—	(1,000)	—	(2,750)
Effect of foreign exchange	<u>262,025</u>	<u>2,456</u>	<u>3,451</u>	<u>224</u>	<u>466</u>	<u>14,375</u>	<u>282,997</u>
Balance as at December 31, 2015	<u>2,865,180</u>	<u>33,733</u>	<u>54,203</u>	<u>3,836</u>	<u>12,228</u>	<u>97,111</u>	<u>3,066,291</u>
Additions/transfers	96,376	118	—	44	—	(73,393)	23,145
Disposals	(127,658)	(6,480)	(35)	(798)	(88)	—	(135,059)
Effect of foreign exchange	(94,139)	(781)	(1,134)	(65)	(151)	(1,131)	(97,401)
Balance as at September 30, 2016	<u>2,739,759</u>	<u>26,590</u>	<u>53,034</u>	<u>3,017</u>	<u>11,989</u>	<u>22,587</u>	<u>2,856,976</u>

(\$ thousands)	<u>Rigs and related equipment</u>	<u>Automotive and other equipment</u>	<u>Buildings</u>	<u>Construction equipment</u>	<u>Land</u>	<u>Assets under construction</u>	<u>Total</u>
Accumulated depreciation							
Balance as at January 1, 2015	949,602	16,510	9,907	2,955	—	—	978,974
Depreciation	111,159	3,897	2,423	214	—	—	117,693
Impairment loss	205,628	—	—	—	—	—	205,628
Disposals	(18,672)	(5,305)	(905)	8	—	—	(24,874)
Assets held for sale	—	—	(6)	—	—	—	(6)
Effect of foreign exchange	130,327	1,533	552	196	—	—	132,608
Balance as at December 31, 2015	1,378,044	16,635	11,971	3,373	—	—	1,410,023
Depreciation	122,519	3,087	1,642	132	—	—	127,380
Disposals	(125,826)	(3,970)	(8)	(726)	—	—	(130,530)
Effect of foreign exchange	(48,421)	(515)	(208)	(59)	—	—	(49,203)
Balance as at September 30, 2016	1,326,316	15,237	13,397	2,720	—	—	1,357,670
Net book value							
September 30, 2016	1,413,443	11,353	39,637	297	11,989	22,587	1,499,306
December 31, 2015	1,487,136	17,098	42,232	463	12,228	97,111	1,656,268

Capitalized borrowing costs included in additions to property and equipment for the period ended September 30, 2016 are nil. For the period ended December 31, 2015, capitalized borrowing costs of \$1.3 million are included in additions to property and equipment, based on a capitalization rate 6.69%.

For the nine months ended September 30, 2016, disposals mainly related to various non-core assets in the US and Canadian divisions, including all fully-owned barge assets, as well as the disposal of a non-drilling division (CanGas). No impairment indicators were noted and no impairment expense was recognized for the nine months ended September 30, 2016.

For the year ended December 31, 2015, Trinidad recorded an impairment loss of \$205.6 million with \$26.9 million recorded in the third quarter and \$178.7 million recorded in the fourth quarter of 2015. In the third quarter of 2015, due to poor market conditions and a lack of operations in the foreseeable future, Trinidad impaired all barge rig assets to nil with a resulting impairment loss of \$26.9 million. In the fourth quarter, due to a decline in commodity prices and a more pessimistic view of short-term market conditions, Trinidad recorded an impairment expense in the Canadian segment of \$103.7 million. This amount partially related to the decommissioning of 10 drilling rigs, which accounted for impairment of \$24.7 million. In addition, the Canadian segment had an impairment of \$79.0 million related to its active singles and doubles as well as the associated capital spares. Included in the US and international segment was impairment expense of \$75.0 million. This amount partially related to the decommissioning of five rigs, which resulted in an impairment of \$9.7 million. These decommissioned rigs were lower technology and lower capacity rigs, which the company determined would not return to service in 2016 and were made up of three singles and two doubles. In addition, the US and international segment had an impairment of \$65.3 million related to capital inventory and other equipment.

7. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill as at and for the period ended September 30, 2016, and December 31, 2015, are as follows:

(\$ thousands)	Patents	Customer relationships	Engineering and design	Goodwill	Total
Cost					
Balance as at January 1, 2015	3,000	—	—	157,247	160,247
Acquired	—	900	—	32,302	33,202
Internally developed	—	—	1,082	—	1,082
Effect of foreign exchange	—	—	—	15,859	15,859
Balance as at December 31, 2015	3,000	900	1,082	205,408	210,390
Effect of foreign exchange	—	—	—	(754)	(754)
Balance as at September 30, 2016	3,000	900	1,082	204,654	209,636
Accumulated amortization and impairment					
Balance as at January 1, 2015	2,047	—	—	58,522	60,569
Amortization	953	176	78	—	1,207
Impairment loss	—	—	—	111,847	111,847
Effect of foreign exchange	—	—	—	1,719	1,719
Balance as at December 31, 2015	3,000	176	78	172,088	175,342
Amortization	—	338	325	—	663
Balance as at September 30, 2016	3,000	514	403	172,088	176,005
Net book value					
September 30, 2016	—	386	679	32,566	33,631
December 31, 2015	—	724	1,004	33,320	35,048
Remaining useful life	—	—	—	—	—
September 30, 2016 (years)	—	0.86	1.25	n/a	

Intangibles

- **Patents** - consisted of patent applications for a number of drilling rig component parts that were acquired in a previous business combination and were included in the Canadian operations. As at December 31, 2015, the net book value of patents was nil.
- **Customer relationships** - consist of customer relationships acquired from the CanElsion acquisition.
- **Engineering and design** - consist of costs related to work completed on standardized engineering and design drawings for new rig builds.

Goodwill

Goodwill is a result of a number of business combinations and is generally attributable to anticipated synergies expected from those acquisitions. Goodwill by definition has no useful life; and therefore, is not amortized. However, goodwill is subject to impairment tests at least annually. For purposes of impairment testing, Trinidad assesses goodwill at the operating segment level.

At September 30, 2016, there were no indications of impairment and as such no impairment test of goodwill was performed. The change in the balance at September 30, 2016, when compared to December 31, 2015, is entirely due to the effects of changes in the foreign exchange rate during the period.

At September 30, 2015, in response to existing industry conditions in the third quarter of 2015, the Company determined that there were indications of impairment present. At September 30, 2015, the Company completed an assessment and recognized an impairment loss of \$111.8 million on the goodwill associated with its US and international segment. These goodwill assets were originally generated on the acquisitions of Cheyenne Drilling and the barge drilling operations. At December 31, 2015, the Company determined that there were additional indications of impairment present. An impairment test was performed on the Canadian and US and international operating segments at December 31, 2015, and the recoverable amounts exceeded its carrying value such that any reasonable change in the key assumptions used in determining value in use would not result in an impairment to goodwill.

As at September 30, 2016, goodwill of \$32.6 million is comprised of \$18.9 million in the Canadian operations and \$13.7 million in the US and international operations. (December 31, 2015 - \$18.9 million in the Canadian operations and \$14.4 million in the US and international operations.)

8. INVESTMENT IN JOINT VENTURES

Joint Ventures Loss (Gain) Reconciliation

(\$ thousands)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Trinidad Drilling International gain from investment	(761)	(3,058)	(5,698)	(4,975)
Trinidad Drilling International fair value adjustment	19,548	—	12,141	—
Diavez CanElson de Mexico, S.A. de C.V. (gain) loss from investment	(290)	234	287	234
Loss (gain) from investment in joint ventures	18,497	(2,824)	6,730	(4,741)

Joint Ventures Investment Reconciliation

As at (\$ thousands)	September 30, 2016	December 31, 2015
Trinidad Drilling International closing investment balance	239,963	294,511
Diavez CanElson de Mexico, S.A. de C.V. closing investment balance	797	1,147
Investment in joint ventures	240,760	295,658

Joint Venture - Trinidad Drilling International

Effective September 3, 2013, Trinidad entered into a joint venture arrangement with Halliburton to operate drilling rigs for international projects outside of Canada and the United States. The joint venture currently has operations in Saudi Arabia and Mexico and is exploring future growth opportunities in other international markets. The joint venture is conducting business under the name Trinidad Drilling International (TDI) through separately incorporated companies. Trinidad owns 60% of the shares of TDI and each of the joint parties have equal voting rights. The investment is held through common shares and mandatory redeemable preferred shares classified as liabilities. Trinidad considers the investment to be a financial asset at fair value through profit or loss and recognizes changes in fair value of the investment in the statement of operations as a (gain) loss from investment in joint venture.

The joint shareholders agreement for TDI was signed by each of the participating parties effective September 3, 2013 with drilling operations commencing in the second quarter of 2014.

Continuity of Investment in TDI Joint Venture for Trinidad

Total Investment (\$ thousands)	Nine months ended September 30, 2016	Year ended December 31, 2015
Opening balance	294,511	163,958
Increase in joint venture investment	—	66,764
Distribution and dividends received from joint venture	(21,509)	—
Gain (Loss) from investment in joint venture	5,698	(10,149)
Change in loan to joint venture	(9,838)	26,330
Elimination of downstream transactions	(925)	(3,444)
Fair value adjustment	(12,141)	7,517
Effect of foreign exchange	(15,833)	43,535
Ending balance	<u>239,963</u>	<u>294,511</u>

Determination of functional currency. Management reviewed the primary factors under IAS 21 - The Effects of Changes in Foreign Exchange Rates, in order to determine the functional currency of TDI, including the country whose competitive forces and regulations determine the sales price and the currency that influences sales prices and costs related to labor and materials. As all rig contracts are negotiated and settled in US dollars, and the majority of expenses are quoted and paid in US dollars (including lease expenses and most capital costs), the functional currency for TDI was determined to be the US dollar for each of the subsidiaries, including those with drilling operations in Saudi Arabia and Mexico.

Translation gains and losses resulting from the translation of the Company's investment into the Canadian dollar are for presentation purposes only and are included in equity as accumulated other comprehensive income. Trinidad records its portion of income in US dollars; therefore, this amount is calculated with no related translation adjustment.

Property and equipment. During the third quarter of 2016, in light of current and expected future market conditions, TDI undertook a review of its current depreciation methodology for all rigs and related equipment. As a result, as of July 1, 2016, TDI determined that using a straight-line method (versus unit of production) and a lower salvage value would more accurately reflect the future economic benefits related to these assets. These adjustments were applied prospectively. Trinidad expects this adjustment to increase depreciation in future periods; however, quantifying this amount would be impracticable due to the uncertainty of operating days in 2016. Using the below adjusted useful life estimates will allow the Company to reflect a more accurate pattern of future economic benefits to these assets.

Updated depreciation rates for TDI effective July 1, 2016:

Rigs and related equipment

Land rigs

Drawworks, mast and substructure	up to 20 years	Straight-line	(up to 10% salvage value)
Blow out preventer, boilers and top drives	up to 15 years	Straight-line	
Top drives	up to 15 years	Straight-line	(up to 10% salvage value)
Buildings and electrical	up to 10 years	Straight-line	(up to 10% salvage value)
Mud pumps, and mud systems	up to 10 years	Straight-line	
Drill pipe and tubular	up to 6 years	Straight-line	
Recertification	1,000 drill days	Unit-of-production	
Other recertifications	up to 5 years	Straight-line	
Hull	up to 20 years	Straight-line	(up to 10% salvage value)
Major inspections	1,500 drill days	Unit-of-production	
Drilling spare equipment	up to 15 years	Straight-line	(up to 10% salvage value)

Automotive and other equipment

Office furniture and other equipment	5 years	Straight-line	
Automotive equipment	up to 4 years	Straight-line	(up to 10% salvage value)

Other assets

Buildings	up to 25 years	Straight-line	
Leasehold improvements	term of lease		
Construction equipment	5 to 20 years	Straight-line	

Summarized financial information for Trinidad Drilling International

Summarized statement of operations and comprehensive income for Trinidad Drilling International:

	2016		2015	
	TDI	Trinidad 60% Share	TDI	Trinidad 60% Share
For the three months ended September 30, (\$ thousands)				
Revenue				
Oilfield service revenue	25,467	15,280	36,765	22,059
Other revenue	—	—	189	113
	<u>25,467</u>	<u>15,280</u>	<u>36,954</u>	<u>22,172</u>
Expenses				
Operating expenses	12,672	7,603	20,026	12,015
General and administrative	2,479	1,487	2,970	1,782
Depreciation and amortization	8,742	5,245	6,389	3,833
Foreign exchange	453	272	117	70
Finance costs	442	265	216	130
(Gain) loss on sale of property and equipment	(7)	(4)	655	393
Preferred share valuation	(2,007)	(1,204)	—	—
Income before income tax	<u>2,693</u>	<u>1,616</u>	<u>6,581</u>	<u>3,949</u>
Current income taxes	780	468	1,576	946
Deferred income taxes	645	387	(91)	(55)
Net income	<u>1,268</u>	<u>761</u>	<u>5,096</u>	<u>3,058</u>

For the nine months ended September 30, (\$ thousands)	2016		2015	
	TDI	Trinidad 60% Share	TDI	Trinidad 60% Share
Revenue				
Oilfield service revenue	106,243	63,746	94,609	56,765
Other revenue	—	—	444	267
	<u>106,243</u>	<u>63,746</u>	<u>95,053</u>	<u>57,032</u>
Expenses				
Operating expenses	57,632	34,579	52,620	31,572
General and administrative	8,606	5,164	10,193	6,116
Depreciation and amortization	22,517	13,510	17,822	10,693
Foreign exchange	1,183	710	816	490
Finance costs	1,489	893	583	350
(Gain) loss on sale of property and equipment	—	—	655	393
Dividend expense	24,818	14,891	—	—
Preferred share valuation	(26,341)	(15,804)	—	—
Income before income tax	<u>16,339</u>	<u>9,803</u>	<u>12,364</u>	<u>7,418</u>
Current income taxes	5,303	3,182	3,859	2,315
Deferred income taxes	1,539	923	214	128
Net income	<u>9,497</u>	<u>5,698</u>	<u>8,291</u>	<u>4,975</u>

Summarized statement of financial position for Trinidad Drilling International:

Amounts are presented at 100% of the value included in the statement of financial position for Trinidad Drilling International.

As at (\$ thousands)	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	68,416	69,002
Accounts receivable	27,379	69,662
Inventory	6,706	8,495
Prepaid expenses	4,205	5,760
	<u>106,706</u>	<u>152,919</u>
Property and equipment	390,794	425,329
Deposits on property and equipment	—	420
Deferred income taxes	2,651	4,095
	<u>500,151</u>	<u>582,763</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	15,924	30,929
Preferred shares	415,576	476,194
	<u>431,500</u>	<u>507,123</u>
Notes payable to joint venture partners	44,108	59,662
	<u>475,608</u>	<u>566,785</u>

<u>As at</u> <u>(\$ thousands)</u>	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Shareholders' Equity		
Common shares	29,484	29,484
Accumulated other comprehensive income	3,599	4,473
Deficit	(8,540)	(17,979)
	24,543	15,978
	500,151	582,763

Commitments

TDI has entered into several operating lease agreements that are included in general and administrative expenses. TDI does not have any contingent rental or sublease agreements, nor any sublease income, and there are no significant renewal or purchase options. These leases expire at various times through 2018. Of these leases, \$0.6 million is due in less than one year, and \$0.1 million is due in one to three years.

Related party transactions

The related party transaction exchange amounts are determined depending on the nature of the transaction, and negotiations by both parties. They generally fall into three categories: shared services, newly built equipment and sale of existing equipment.

- **Shared services** - TDI, and the shareholders of TDI, signed a shared-services agreement that outlines the costs that will be reimbursed and the rates based on an employee time allocation assessment.
- **Newly built equipment** - Trinidad's manufacturing division will quote a cost to complete the build based on requested rig specifications. The relevant overhead allocation and markup are applied based on the original Shareholders Agreement signed between Halliburton and Trinidad.
- **Sale of pre-existing equipment** - this equipment is sold at a gain/loss on sale to the Company based on third-party valuations.

During the three and nine months ended September 30, 2016, Trinidad charged TDI general and administrative expenses of \$0.5 million and \$2.2 million, respectively (2015 - \$0.7 million and \$2.7 million, respectively). As at September 30, 2016, TDI had an outstanding trade payable to Trinidad of \$3.3 million (December 31, 2015 - \$0.8 million) related to rig purchases and general and administrative expenses.

The joint shareholders of TDI have loaned funds, via promissory notes, to fund the importation of drilling rigs into Mexico. The funds are recoverable through operations in TDI within three years and earn interest at LIBOR + 2.5%. The loan payable to the joint venture shareholders is \$17.0 million and matures in November 2017.

The joint shareholders of TDI have loaned funds, via promissory notes, to fund the importation of drilling rigs into Saudi Arabia. The funds are recoverable through operations in TDI within five years and earn interest at 4.25%. The loan payable to the joint venture shareholders is \$27.1 million and matures in December 2020.

Fair value of investment

At September 30, 2016, in order to assess the fair value of the investment in the TDI joint venture asset held on the consolidated statements of financial position, Trinidad compared the discounted future cash flows to the net book value of this asset at the period-end date. For the three and nine months ended September 30, 2016, it was determined that the fair value of the investment was lower than the net book value and as such an adjustment of \$19.5 million and \$12.1 million was recorded (2015 - nil and nil).

Joint Venture - Diavaz CanElson de Mexico, S.A. de C.V.

Effective August 11, 2015, through the CanElson acquisition, Trinidad entered into a joint venture arrangement with D&S Petroleum, S.A. de C.V. to operate drilling and service rigs in Mexico. The joint venture conducts business under the name Diavaz CanElson de Mexico, S.A. de C.V. (DCM) through a separately incorporated company. Trinidad owns 50% of the shares of DCM and each of the joint parties have equal voting rights. The joint venture partners have joint control over the relevant activities of the joint venture and as such DCM is accounted for in these condensed consolidated interim financial statements using the equity method of accounting.

Continuity of Investment in DCM Joint Venture for Trinidad

Total Investment (\$ thousands)	Nine months ended September 30, 2016	Year ended December 31, 2015
Opening balance	1,147	—
(Loss) gain from investment in joint venture	(287)	1,102
Effect of foreign exchange	(63)	45
Ending balance	797	1,147

Summarized financial information for Diavaz CanElson de Mexico, S.A. de C.V.

The functional currency of Trinidad's investment in DCM is the US dollar. Translation gains and losses resulting from the translation of the Company's investment into the Canadian dollar are for presentation purposes only and are included in equity as accumulated other comprehensive income. Trinidad records its portion of income in US dollars; therefore, this amount is calculated with no related translation adjustment.

Summarized statement of operations and comprehensive income (loss) for DCM:

(\$ thousands)	Three months ended September 30, 2016		For the period August 11, 2015 to September 30, 2015	
	DCM	Trinidad 50% Share	DCM	Trinidad 50% Share
Revenue				
Oilfield service revenue	987	493	784	392
	987	493	784	392
Expenses				
Operating expenses	1,487	744	1,314	657
General and administrative	164	82	186	93
Depreciation and amortization	1,314	657	618	309
Foreign exchange	(27)	(14)	(704)	(352)
Finance costs	163	81	116	58
Gain on sale of property and equipment	(1)	(1)	—	—
Loss before income tax	(2,113)	(1,056)	(746)	(373)
Current income taxes	492	246	(278)	(139)
Deferred income taxes	(3,185)	(1,592)	—	—
Net income (loss)	580	290	(468)	(234)

(\$ thousands)	Nine months ended September 30, 2016		For the period August 11, 2015 to September 30, 2015	
	DCM	Trinidad 50% Share	Share	Trinidad 50% Share
Revenue				
Oilfield service revenue	9,572	4,786	784	392
	9,572	4,786	784	392
Expenses				
Operating expenses	7,665	3,833	1,314	657
General and administrative	625	312	186	93
Depreciation and amortization	4,145	2,073	618	309
Foreign exchange	(133)	(67)	(704)	(352)
Finance costs	546	273	116	58
Gain on sale of property and equipment	(8)	(4)	—	—
Loss before income tax	(3,268)	(1,634)	(746)	(373)
Current income taxes	492	246	(278)	(139)
Deferred income taxes	(3,186)	(1,593)	—	—
Net income (loss)	(574)	(287)	(468)	(234)

Summarized statement of financial position for DCM:

Amounts are presented at 100% of the value included in the statement of financial position for DCM.

As at (\$ thousands)	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	153	1,677
Accounts receivable	20,399	18,880
Inventory	667	786
Prepaid expenses	815	434
	22,034	21,777
Property and equipment	6,054	12,385
Deferred income taxes	3,504	638
	31,592	34,800
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	7,781	6,721
	7,781	6,721
Financial lease liability	6,142	8,822
	13,923	15,543
Shareholders' Equity		
Common shares	3,920	3,920
Accumulated other comprehensive (loss) income	(518)	496
Retained earnings	14,267	14,841
	17,669	19,257
	31,592	34,800

Commitments

DCM has entered into several operating lease agreements that are included in general and administrative expenses. DCM does not have any contingent rental or sublease agreements, nor any sublease income, and there are no significant renewal or purchase options. These leases expire at various times through 2019. Of these leases, \$2.0 million is due in less than one year, and less than \$0.1 million is due in one to three years.

Related party transactions

At September 30, 2016, DCM had accounts payable of \$7.8 million. This balance includes \$2.0 million of management fees due to joint venture partners.

Credit risk

At September 30, 2016, DCM had accounts receivable of \$20.4 million. This balance has been valued using a 12.0% discount factor and assuming a two year collection period. This balance is due primarily from two customers. Subsequent to September 30, 2016, \$0.5 million outstanding receivables had been collected.

9. LONG-TERM DEBT

<u>As at</u> <u>(\$ thousands)</u>	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Limited Partnership Loans ^{(1) (c)}	2,237	2,609
2019 Notes ^(a)	588,686	620,661
Credit Facility ^(b)	—	89,873
	590,923	713,143
Less: unamortized debt issue costs	(5,208)	(6,223)
	585,715	706,920

(1) The Limited Partnership Loans are classified as current portion of long-term debt on the consolidated statements of financial position as the balance is fully callable.

a) On December 16, 2010, Trinidad issued US\$450.0 million of 7.875% senior unsecured notes (Senior Notes) for gross proceeds of US\$446.7 million. The Canadian dollar equivalency on this date was \$449.1 million. Interest is payable semi-annually in arrears on January 15 and July 15, and the Senior Notes are due in January 2019. On or after January 15, 2015, Trinidad has the option to redeem all or a portion of the Senior Notes at set redemption prices, which include principal amount plus a penalty fee, plus any accrued and unpaid interest to the applicable redemption date.

The discount on the Senior Notes is being accreted such that the liability at maturity will equal the face value of US\$450.0 million and deferred financing charges of \$11.7 million are being amortized over the life of the Senior Notes using the effective interest rate method.

The Senior Notes have been designated as a hedge of the net investment in self-sustaining foreign operations. As a result, unrealized foreign exchange gains and losses on the Senior Notes are offset against foreign exchange gains and losses arising from the translation of the accounts of self-sustaining foreign subsidiaries. These losses are included in the cumulative translation account in other comprehensive income.

The Senior Notes are unsecured and have no financial covenant compliance reporting requirements. There are other covenant limitations, including the following; incurring additional debt; investments, including advances to the TDI joint venture; asset sales; and restricted payments. Restricted payments are allowed within a basket, calculated as the accumulated net earnings from October 1, 2010 to the current period at 50% of net income or 100% of net loss, plus equity issued for cash and net fair market value of other restricted assets added for equity. As at September 30, 2016, Trinidad had a significant positive restricted payment basket available.

- b) On December 12, 2014, Trinidad terminated its existing credit facility from 2010 and entered into a new agreement, which was then amended on December 14, 2015 and again on June 24, 2016. The new amended credit facility includes a Canadian revolving facility of \$100.0 million, down from \$150.0 million, and a US revolving facility of US\$100.0, down from US\$150.0 million. Included in the facility are a \$10.0 million Canadian dollar bank overdraft and a US\$10.0 million US dollar bank overdraft. The facility requires quarterly interest payments based on Bankers Acceptance and LIBOR rates. The facility matures December 12, 2018, and is subject to annual extensions of an additional year on each anniversary date upon consent of the lenders holding two-thirds of the aggregate commitments under the credit facility. The members of the syndicated groups include major Canadian, US and international financial institutions. The debt is secured by a general guarantee over the assets of Trinidad and its subsidiaries. The Company's original syndicated loan facility was subject to three covenants. Effective June 24, 2016, in accordance with the new amended credit facility, the Total Debt to Bank EBITDA covenant was permanently eliminated. Effective June 24, 2016, based on the amended credit facility, the covenants were adjusted to the following:

Senior Debt to Bank EBITDA	Max of 2.5x	April 1, 2016 - onwards
Bank EBITDA to Cash Interest Expense	Min of 1.5x	April 1, 2016 to March 31, 2018
	Min of 2.5x	April 1, 2018 - onwards

In addition to the financial covenants, the credit facility contains other covenants with threshold limitations on various day-to-day events, including the following: incurring additional debt and liens on assets; investments, including advances to the TDI joint venture; asset sales; repurchase of Senior Notes; and making restricted payments. The new amended credit facility also includes a dividend restriction whereby no dividends may be paid from April 1, 2016 to March 31, 2018. At September 30, 2016, Trinidad is in compliance with all covenants related to the credit facility.

- c) On August 11, 2015, Trinidad acquired debt due to the CanElson acquisition which includes the following facilities:

As of September 30, 2016, Limited partnership loan #1 (LP#1) had \$0.3 million outstanding on the non-revolving loan (December 31, 2015 - \$0.6 million). For the period commencing December 31, 2015 and ending on September 30, 2016, all financial covenants have been suspended. Interest on the capital loan shall continue to accrue at prime lending rate plus 3% per annum, calculated and payable monthly until and including September 30, 2016. This loan is secured by the drilling rig included in the partnership. Trinidad is currently negotiating this debt arrangement with the financial institution.

As of September 30, 2016, Limited partnership loan #3 (LP#3) had \$1.9 million outstanding on the non-revolving loan (December 31, 2015 - \$2.0 million). For the period commencing December 31, 2015 and ending on September 30, 2016, all financial covenants have been suspended. Interest on the capital loan shall continue to accrue at prime lending rate plus 3.75% per annum, calculated and payable monthly until and including September 30, 2016. This loan is secured by the drilling rig included in the partnership. Trinidad is currently negotiating this debt arrangement with the financial institution.

At September 30, 2016, the Company had outstanding letters of credit of less than \$0.6 million (December 31, 2015 - \$0.5 million).

10. NON-CONTROLLING INTEREST

Non-controlling interests arise from business combinations in which Trinidad acquires less than a 100.0 percent interest. Non-controlling interests are initially measured at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable assets. Subsequent to acquisition, the carrying amount of non-controlling interest is increased or decreased by the non-controlling interest's share of subsequent changes in net income, as well as dividends or cash disbursements made to the non-controlling interest.

The non-controlling interests of Midland C Ranch Holdings, LLC (Midland), CanElson 120601 Drilling Limited Partnership #1 (LP#1), CanElson 120601 Drilling Limited Partnership #2 (LP#2), and CanElson 120601 Drilling Limited Partnership #3 (LP#3) were initially measured at fair value on the date of acquisition.

At September 30, 2016, Trinidad completed a valuation assessment of the non-controlling interest liability whereby the discounted cash-flows were compared to the net book value of the liability in order to ensure the fair value of the non-controlling liability was properly valued for the period end date. As at September 30, 2016, it was determined that the fair value of the liability was lower than the net book value and as such an adjustment of \$5.9 million was recorded. As at December 31, 2015, Trinidad completed a valuation assessment of the non-controlling interest liability. It was determined that the net book value of the non-controlling liability was in line with the fair value and as such no adjustment was required.

The following table summarizes the information relating to the non-controlling interest:

(\$ thousands)	<u>Nine months ended September 30, 2016</u>	<u>Year ended December 31, 2015</u>			
Opening balance	18,448	—			
Acquired investment	—	16,577			
Foreign currency translation adjustment	(725)	1,217			
Comprehensive (loss) income attributable to non-controlling interest	(1,055)	654			
Change in fair value of liability	(5,944)	—			
Closing balance	10,724	18,448			

Non-controlling interest ownership percentage As at September 30, 2016	LP1	LP2	LP3	Midland	
(\$ thousands)	50%	45.6%	50%	50%	Total
Current assets	1,623	668	15	2,440	4,746
Non-current assets	4,450	4,443	4,488	20,406	33,787
Current liabilities	1,528	3,100	2,726	569	7,923
Non-current liabilities	—	—	—	—	—

As at December 31, 2015					
(\$ thousands)					
Current assets	1,447	612	61	1,974	4,094
Non-current assets	4,928	4,757	4,945	22,182	36,812
Current liabilities	1,855	3,100	2,634	—	7,589
Non-current liabilities	—	—	—	—	—

Three months ended September 30, 2016					
(\$ thousands)					
Revenue	1,249	344	—	1,374	2,967
Net loss	(24)	(96)	(212)	(222)	(554)
Net loss attributable to non-controlling interest	(12)	(44)	(106)	(111)	(273)
Total comprehensive loss attributable to non-controlling interest	(12)	(44)	(106)	(41)	(203)

Nine months ended September 30, 2016					
(\$ thousands)					
Revenue	2,696	1,045	—	4,203	7,944
Net loss	(106)	(304)	(604)	(616)	(1,630)
Net loss attributable to non-controlling interest	(53)	(139)	(302)	(308)	(802)
Total comprehensive loss attributable to non-controlling interest	(53)	(139)	(302)	(561)	(1,055)

For the period August 11, 2015 to September 30, 2015					
(\$ thousands)					
Revenue	148	—	—	981	1,129
Net loss	(56)	(77)	(58)	28	(163)
Net loss attributable to non-controlling interest	(28)	(35)	(29)	14	(78)
Total comprehensive loss attributable to non-controlling interest	(28)	(35)	(29)	293	201

11. COMMON SHARES

Authorized

Unlimited number of common shares, voting, participating:

<u>(Number of shares)</u>	<u>Nine months ended September 30, 2016</u>	<u>Year Ended December 31, 2015</u>
Outstanding - beginning of period	222,087,270	135,157,724
Issued upon business combination	—	88,661,926
Canceled upon repurchase under NCIB	—	(1,732,380)
Outstanding - end of period	222,087,270	222,087,270

Holders of common shares are entitled to participate in dividends if and when declared by the Company. During the nine months ended September 30, 2016, no dividends were declared (2015 - \$24.4 million or \$0.05 per share per quarter).

On August 11, 2015, Trinidad acquired all of the issued and outstanding shares of CanElson for 1.0631 common shares of Trinidad, or \$4.90 in cash per CanElson share to a maximum consideration of \$50.0 million. As a result of the elections made by CanElson shareholders, Trinidad paid the full \$50.0 million in cash and the remainder of the acquisition consideration in common shares of Trinidad (88,661,926 Trinidad common shares). CanElson was a drilling company that operated land-based contract drilling rigs in Canada, the United States and Mexico.

On November 25, 2014, Trinidad filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid (NCIB) to purchase outstanding shares on the open market. As approved by the TSX, Trinidad was authorized to purchase up to 12,299,009 common shares during the period of November 27, 2014 to November 26, 2015. For the year ended December 31, 2015, 1,732,380 common shares were repurchased for a total consideration of \$8.4 million.

12. SHARE-BASED PAYMENTS

Incentive Option Plan

On March 10, 2008, Trinidad established an Option Plan to provide an opportunity for officers, employees and consultants of Trinidad and its affiliates to participate in the growth and development of the Company. Options generally vest on the first, second and third anniversary of the date of grant. They are exercisable for a period of five years from the date of grant. At September 30, 2016, a maximum of 10% of the outstanding common share balance may be used under the Option Plan.

The following summarizes the changes in outstanding options:

	<u>Nine months ended September 30, 2016</u>		<u>Year ended December 31, 2015</u>	
	<u>Number</u>	<u>Weighted average exercise price (CDN\$)</u>	<u>Number</u>	<u>Weighted average exercise price (CDN\$)</u>
Outstanding - beginning of period	880,891	7.35	850,676	8.21
Granted	425,675	2.13	261,600	5.21
Expired	(120,467)	8.63	(124,177)	8.27
Forfeited	(72,115)	5.36	(107,208)	7.89
Outstanding - end of period	1,113,984	5.35	880,891	7.35

Trinidad uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. The per share weighted average fair value of options granted during the nine months ended September 30, 2016 was \$0.42 (September 30, 2015 - \$0.70) which was based on the following assumptions:

<u>For options granted during the nine months ended September 30,</u>	<u>2016</u>	<u>2015</u>
Share price (CDN \$)	2.13	5.21
Exercise price (CDN \$)	2.13	5.21
Volatility (%)	28.6	25.2
Expected life (years)	3.5	3.5
Dividend yield (%)	—	2.9
Forfeiture rate (%)	5.0	4.0
Risk free interest rate (%)	0.7	0.8

Volatility was determined based on Trinidad's historical daily trading price over the trailing period up to the expected life of the awards. For both the three and nine months ended September 30, 2016, Trinidad recognized share-based payment expense related to outstanding options of \$0.1 million (2015 - less than \$0.1 million and \$0.2 million, respectively).

Deferred Share Unit Plan

On March 11, 2008, the Company established the Deferred Share Unit (DSU) Plan to provide a compensation system for members of the Board of Directors that is reflective of the responsibility, commitment and risk accompanying Board membership. Each DSU granted permits the holder to receive a cash payment equal to the volume weighted average share price for the five days preceding payment. DSUs vest immediately upon grant but are not exercisable until resignation or termination from the Board of Directors. DSU holders are entitled to share in dividends which are credited as additional DSUs at the dividend record date.

The following summarizes the changes in outstanding DSUs:

<u>(Number of DSUs)</u>	<u>Nine months ended September 30, 2016</u>	<u>Year ended December 31, 2015</u>
Outstanding - beginning of period	353,457	266,791
New grants	361,935	105,843
Granted through dividend payment	—	16,150
Exercised	(158,085)	(35,327)
Outstanding - end of period	557,307	353,457

The total fair value of DSUs at September 30, 2016 was \$1.4 million (December 31, 2015 - \$0.8 million) which represents total DSUs outstanding multiplied by the trailing five day volume weighted average share price of the Company's underlying common shares as the DSUs have no exercise price. The liability is recorded in accounts payable and accrued liabilities in the consolidated statements of financial position.

For the three and nine months ended September 30, 2016, Trinidad recognized share-based payment expense related to the outstanding DSUs of less than \$0.1 million and \$1.1 million, respectively (2015 - recovery of \$0.5 million and expense of \$0.4 million, respectively).

For the nine months ended September 30, 2016, 158,085 deferred share units were exercised for total proceeds of \$0.4 million (2015 - 35,327 units were exercised for total proceeds of \$0.2 million).

Performance Share Unit Plan

On March 11, 2008, Trinidad established the Performance Share Unit (PSU) Plan to provide an opportunity for officers and employees of Trinidad to participate in the growth and development of the Company and to promote further alignment of interests between employees and the shareholders. Plan units are subject to Company performance metrics including Total Shareholder Return and Return on Gross Assets, weighted at 50% each, with a three year performance period. Each PSU granted permits the holder to receive a cash payment equal to the fair value of the volume weighted average share price for the five days preceding payment. PSU holders are entitled to share in dividends which are credited as additional PSUs at the dividend record date.

The following summarizes the changes in outstanding PSUs:

<u>(Number of PSUs)</u>	<u>Nine months ended September 30, 2016</u>	<u>Year ended December 31, 2015</u>
Outstanding - beginning of period	3,198,453	1,852,705
New grants	4,112,807	2,182,000
Granted through dividend payment	—	187,178
Exercised	—	(774,357)
Forfeited	(130,710)	(249,073)
Outstanding - end of period	<u>7,180,550</u>	<u>3,198,453</u>

At September 30, 2016, there were no vested PSUs outstanding (December 31, 2015 - nil). Of the PSUs outstanding at September 30, 2016, 965,447 vest on December 1, 2016, 2,143,401 vest on December 1, 2017 and 4,071,702 vest on December 1, 2018. The total fair value of PSUs at September 30, 2016 was \$6.9 million (December 31, 2015 - \$3.1 million), which represents total PSUs outstanding multiplied by the trailing five day volume weighted average share price of the Company's underlying common shares as the PSUs have no exercise price. The liability is recorded in accounts payable and accrued liabilities in the consolidated statements of financial position.

For the three and nine months ended September 30, 2016, Trinidad recognized a share-based payment expense related to the outstanding PSUs of \$0.2 million and \$3.8 million, respectively (2015 - recovery of \$1.8 million and expense of \$0.2 million, respectively).

Stock Appreciation Rights Plan

On November 5, 2013, Trinidad established the Stock Appreciation Rights (SAR) Plan to provide an opportunity for officers and employees of Trinidad to promote further alignment of interests between employees and the shareholders. Each SAR granted permits the holder to receive a cash payment equal to the spread of the closing sales price of the stock and the grant price for all vested SARs. The SARs generally vest a portion on the first, second or third anniversary of the grant date, and must be exercised within ten years from the grant date.

<u>(Number of SARs)</u>	<u>Nine months ended September 30, 2016</u>	<u>Year ended December 31, 2015</u>
Outstanding - beginning of period	475,916	493,662
New grants	353,850	213,100
Forfeited	(153,005)	(230,846)
Outstanding - end of period	<u>676,761</u>	<u>475,916</u>

At September 30, 2016, there were 150,084 vested SARs outstanding (December 31, 2015 - 144,936). The total fair value of SARs at September 30, 2016 was less than \$0.1 million (December 31, 2015 - nil).

For both the three and nine months ended September 30, 2016, Trinidad recognized share-based payment expense related to the outstanding SARs of less than \$0.1 million (2015 - nil and nil, respectively).

13. EARNINGS PER SHARE

Basic earnings per share for the three and nine months ended September 30, 2016 and 2015, is based on the net earnings attributable to Trinidad shareholders, as reported in the consolidated statements of operations and comprehensive income, and the weighted average number of common shares outstanding in the period.

Diluted earnings per share for the three and nine months ended September 30, 2016 and 2015 is based on the net earnings attributable to Trinidad shareholders as reported in the consolidated statements of operations and comprehensive income and basic weighted average number of common shares outstanding, both adjusted for dilutive factors as follows:

(\$ thousands except share data)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net (loss) earnings attributable to Trinidad common shareholders				
Basic	<u>(35,780)</u>	<u>(87,540)</u>	<u>(40,733)</u>	<u>(76,877)</u>
Diluted	<u>(35,780)</u>	<u>(87,540)</u>	<u>(40,733)</u>	<u>(76,877)</u>
Weighted average number of common shares				
Basic	<u>222,087,270</u>	<u>182,574,890</u>	<u>222,087,270</u>	<u>150,077,401</u>
Stock options	<u>414,225</u>	<u>—</u>	<u>414,225</u>	<u>—</u>
Diluted	<u>222,501,495</u>	<u>182,574,890</u>	<u>222,501,495</u>	<u>150,077,401</u>

For the three and nine months ended September 30, 2016, 699,759 stock options were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive (2015 - 941,301 stock options).

There were no common shares transactions subsequent to September 30, 2016, that would have materially changed the earnings per share calculations had the transactions occurred prior to this date.

14. FINANCIAL INSTRUMENTS

Trinidad's financial instruments include cash and cash equivalents, accounts receivable, investment in TDI joint venture, accounts payable and accrued liabilities, dividends payable, long-term debt and non-controlling interest. The carrying amounts of these financial instruments, reported on the Company's consolidated statements of financial position, approximates their fair values, with the exception of the senior notes as follows:

As at (\$ thousands)	September 30, 2016		December 31, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets at amortized cost:				
Cash and cash equivalents	29,344	29,344	63,686	63,686
Accounts receivable	68,858	68,858	113,870	113,870
Financial assets at fair value through profit or loss:				
Investment in TDI joint venture	239,963	239,963	294,511	294,511
Financial liabilities measured at amortized cost:				
Accounts payable and accrued liabilities	63,220	63,220	93,795	93,795
Dividends payable	—	—	2,221	2,221
Limited Partnership Loans	2,237	2,237	2,609	2,609
Credit Facility				
Canadian Revolving Credit Facility ⁽¹⁾	—	—	64,961	64,961
US Revolving Credit Facility ^{(1) (2)}	—	—	24,912	24,912
2019 Notes ⁽¹⁾	563,703	588,686	554,292	620,661
Non-controlling interest liability	10,724	10,724	18,448	18,448

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- (1) Senior Notes and Credit Facilities are recorded at their gross amounts and do not include transaction costs incurred on their issuance.
 - (2) US Revolving Credit Facility was equivalent to nil at September 30, 2016 and US\$18.0 million at December 31, 2015.

Trinidad has estimated the fair value amounts using appropriate valuation methodologies and information available to management as of the valuation dates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

- **Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividends payable.** The carrying amounts approximate fair value because of the short maturity of these instruments.
- **Investment in TDI joint venture.** The fair value of the investment reflects amounts that Trinidad has invested into the joint venture with Halliburton (TDI) and the financial performance of the joint venture operations. The investment in joint ventures is a level 3 in the fair value hierarchy. Inputs to the change in the fair value of the investment in joint ventures are disclosed in note 8.
- **Long-term debt and limited partnership loans.** The fair value of the various pieces of long-term debt (including amounts drawn on credit facilities) is based on the values owed to third-party financial institutions using current market price indicators. Long-term debt is a level 2 in the fair value hierarchy.
- **Senior Notes.** The fair value is based on the closing market price on the date of valuation. Senior Notes are a level 1 in the fair value hierarchy.
- **Non-controlling interest.** The fair value of the non-controlling interest is a level 3 in the fair value hierarchy. Inputs to the change in fair value of the non-controlling interest are disclosed in note 10.

During the nine months ended September 30, 2016 and the year ended December 31, 2015, there were no transfers of any financial assets or liabilities between levels.

Financing costs

The carrying value of the Senior Notes is recorded net of debt issuance costs. At September 30, 2016, Trinidad's Canadian and US denominated credit facilities were nil and nil, respectively (December 31, 2015 - \$65.0 million and US\$18.0 million, respectively). At September 30, 2016, the deferred issuance costs related to these facilities were \$0.8 million on the Canadian facility and US\$0.8 million on the US facility (2015 - \$0.4 million and US\$0.5 million). Trinidad recorded finance costs of \$0.6 million and \$1.7 million for the three and nine months ended September 30, 2016 (2015 - \$0.5 million and \$1.4 million) relating to amortization of debt issuance costs for all outstanding debt.

Nature and Extent of Risks Arising from Financial Instruments

Trinidad is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, Trinidad is subject to credit risk, liquidity risk, currency risk and interest rate risk.

Financial Instrument	Risks			
	Credit	Liquidity	Market risks	
			Currency	Interest rate
Measured at cost or amortized cost				
Cash and cash equivalents	X		X	X
Accounts receivable	X		X	
Accounts payable and accrued liabilities		X	X	
Dividends payable		X		
Current portion of long-term debt		X		X
Long-term debt		X	X	X
Measured at fair value				
Non-controlling interest	X	X	X	
Investment in TDI joint venture	X	X	X	

Credit risk

Trinidad is exposed to credit risk as a result of extending credit to customers prior to receiving payment for services to be performed, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions and anticipated industry conditions. When a customer does not meet initial credit evaluations, work may be performed subject to a prepayment of services. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and when collectability becomes questionable a provision for doubtful accounts is established.

The following is a reconciliation of the change in the credit risk provision:

As at (\$ thousands)	September 30, 2016	December 31, 2015
Reserve allowance - beginning of period	4,742	3,799
Increase in reserve recorded in the statement of operations in the current period	352	3,429
Write-offs charged against the reserve	—	(2,486)
Recoveries of amounts previously written-off	(71)	—
Reserve allowance - end of period	5,023	4,742

As at September 30, 2016, Trinidad had accounts receivable of \$10.7 million that were greater than 90 days for which no provision had been established (December 31, 2015 - \$6.9 million). Of this accounts receivable balance, \$3.0 million relates to accounts receivable from TDI (December 31, 2015 - \$0.3 million). The Company believes that these amounts will be collected.

Liquidity risk

Liquidity risk is the risk that Trinidad will not be able to meet its financial obligations as they become due. The Company actively manages its liquidity through daily, weekly and longer-term cash outlook and debt management strategies. Trinidad's policy is to ensure that sufficient resources are available either from cash

balances, cash flows or undrawn committed bank facility, to ensure all obligations are met as they fall due. To achieve this objective, the Company:

- Maintains cash balances and liquid investments with highly-rated counterparties;
- Limits the maturity of cash balances; and
- Borrows the bulk of its debt needs under committed bank lines or other term financing.

The following maturity analysis shows the remaining contractual maturities for Trinidad's financial liabilities:

As at September 30, 2016 (\$ thousands)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	63,220	—	—	—
Limited Partnership Loans	2,237	—	—	—
2019 Notes ⁽¹⁾	—	590,265	—	—
Interest payments on contractual obligations	47,124	62,916	—	—
Total	112,581	653,181	—	—

- (1) The financial liability of the Senior Notes represents the Canadian dollar face value at maturity in January of 2019.

Currency risk

Trinidad's operations are affected by fluctuations in currency exchange rates due to the Company's expansion into the US and international marketplace and reliance on US and international suppliers to deliver components used by its construction subsidiary. The exposure to realized foreign currency fluctuations from its US subsidiaries is mitigated due to the independence of the US and international operations from its Canadian parent for cash flow requirements to satisfy daily operations, creating a natural hedge. However, Trinidad is exposed to unrealized fluctuations in the gains and losses on consolidation, and US dollar-denominated intercompany balances between the US, international and Canadian entities. As at September 30, 2016 and 2015, the Company had in place a net investment hedge on these foreign entities.

As at September 30, 2016 and 2015, portions of Trinidad's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities were denominated in US dollars. In addition, Trinidad's US and international subsidiaries, and Trinidad's investment in the joint venture, including all related joint venture gains and losses, are subject to foreign translation adjustments upon consolidation. Based on these US dollar financial instrument closing balances, net earnings for the three and nine months ended September 30, 2016 would have fluctuated by approximately \$0.1 million and \$0.1 million (2015 - \$0.1 million and \$0.2 million), and for the three and nine months ended September 30, 2016, other comprehensive income would fluctuate by \$0.7 million and \$11.5 million (2015 - \$2.1 million and \$14.3 million), for every \$0.01 variation in the value of the US/ Canadian exchange rate.

Interest rate risk

Trinidad is exposed to risk related to changes in interest rates on borrowings under the credit facility which is subject to floating interest rates. As at September 30, 2016, Trinidad had no outstanding debt on the Canadian or US dollar credit facility. A change of one percent in the interest rates for the three and nine months ended September 30, 2016 would cause a change of nil and \$0.2 million change in interest costs (September 30, 2015 - \$0.2 million and \$0.5 million).

15. COMMITMENTS AND CONTINGENCIES

Commitments

Trinidad enters into drilling contracts with third parties for use of the Company's drilling equipment. These contracts range from 12 months to five years. As well, Trinidad has several operating lease agreements on buildings and equipment. Operating lease expenses are included in general and administrative expenses in the consolidated statements of operations and comprehensive income. The Company does not have any contingent rental payments. The Company's annual commitments are shown net of sublease income. The leases expire at various times through 2029 and there are no significant renewal or purchase options.

<u>As at September 30, 2016</u> <u>(\$ thousands)</u>	<u>Less than</u> <u>1 year</u>	<u>1 - 3</u> <u>years</u>	<u>4 - 5</u> <u>years</u>	<u>After</u> <u>5 years</u>
Operating leases	3,706	6,286	5,002	18,649

Contingencies

Trinidad is involved in various legal actions which have occurred in the course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these consolidated financial statements.

16. SEGMENTED INFORMATION

The following presents the result of Trinidad's operating segments:

<u>Three months ended</u> <u>September 30, 2016</u> <u>(\$ thousands)</u>	<u>Canadian</u> <u>Operations</u>	<u>United States /</u> <u>International</u> <u>Operations</u>	<u>Manufacturing</u> <u>Operations</u>	<u>Joint Venture</u> <u>Operations ⁽¹⁾</u>	<u>Inter-segment</u> <u>Eliminations</u>	<u>Corporate</u>	<u>Total</u>
Operating revenue	26,603	36,570	—	—	—	—	63,173
Other revenue	234	122	—	—	—	—	356
Third party recovery	2,478	909	—	—	—	—	3,387
General and administrative - third party recovery	—	—	—	—	—	211	211
Inter-segment revenue	—	—	1,529	—	(1,529)	—	—
Elimination of downstream transactions	(100)	(67)	—	—	—	—	(167)
	<u>29,215</u>	<u>37,534</u>	<u>1,529</u>	<u>—</u>	<u>(1,529)</u>	<u>211</u>	<u>66,960</u>
Operating costs	18,816	21,778	—	—	—	—	40,594
Third party costs	2,478	909	—	—	—	—	3,387
Inter-segment operating	—	—	1,529	—	(1,529)	—	—
Elimination of downstream transactions	—	—	—	—	—	—	—
Operating income	<u>7,921</u>	<u>14,847</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>211</u>	<u>22,979</u>
Depreciation and amortization	17,238	24,668	411	—	—	—	42,317
(Gain) loss on sale of assets	(62)	(8,594)	9	—	—	—	(8,647)
	<u>17,176</u>	<u>16,074</u>	<u>420</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>33,670</u>

Three months ended September 30, 2016 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Segmented (loss) income	(9,255)	(1,227)	(420)	—	—	211	(10,691)
Loss (gain) from investment in joint ventures	—	—	—	18,497	—	—	18,497
General and administrative	—	—	—	—	—	10,900	10,900
General and administrative - third party costs	—	—	—	—	—	211	211
Foreign exchange	—	—	—	—	—	(340)	(340)
Finance and transaction costs	—	—	—	—	—	12,380	12,380
Non-controlling interest fair value adjustment	1,421	(7,365)	—	—	—	—	(5,944)
Income taxes	—	—	—	—	—	(10,342)	(10,342)
Net (loss) income	(10,676)	6,138	(420)	(18,497)	—	(12,598)	(36,053)
Purchase of property and equipment	648	13,034	—	—	—	—	13,682

(1) The loss (gain) from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

Three months ended September 30, 2015 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Operating revenue	50,981	66,454	3,341	—	—	—	120,776
Other revenue	142	173	(2)	—	—	—	313
Third party recovery	4,526	1,643	—	—	—	—	6,169
General and administrative - third party recovery	—	—	—	—	—	292	292
Inter-segment revenue	—	—	23,868	—	(23,868)	—	—
Elimination of downstream transactions	—	(86)	(3,179)	—	—	—	(3,265)
	55,649	68,184	24,028	—	(23,868)	292	124,285
Operating costs	29,604	35,526	3,972	—	—	—	69,102
Third party costs	4,526	1,643	—	—	—	—	6,169
Inter-segment operating	—	—	23,868	—	(23,868)	—	—
Elimination of downstream transactions	—	—	(2,995)	—	—	—	(2,995)
Operating income	21,519	31,015	(817)	—	—	292	52,009
Depreciation and amortization	10,391	15,432	825	—	—	—	26,648
(Gain) loss on sale of assets	(13)	(618)	(12)	—	—	—	(643)
Elimination of downstream transactions	—	8	—	—	—	—	8
Impairment of capital assets	—	26,937	—	—	—	—	26,937
Impairment of goodwill	—	111,847	—	—	—	—	111,847
	10,378	153,606	813	—	—	—	164,797

Three months ended September 30, 2015 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Segmented (loss) income	11,141	(122,591)	(1,630)	—	—	292	(112,788)
Loss (gain) from investment in joint ventures	—	—	—	(2,824)	—	—	(2,824)
General and administrative	—	—	—	—	—	12,186	12,186
General and administrative - third party costs	—	—	—	—	—	292	292
Foreign exchange	—	—	—	—	—	3,318	3,318
Finance and transaction costs	—	—	—	—	—	17,947	17,947
Income taxes	—	—	—	—	—	(56,089)	(56,089)
Net (loss) income	11,141	(122,591)	(1,630)	2,824	—	22,638	(87,618)
Purchase of property and equipment	463	21,165	—	—	—	—	21,628

(1) The loss (gain) from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

Nine months ended September 30, 2016 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Operating revenue	97,903	155,746	7,284	—	—	—	260,933
Other revenue	818	509	1	—	—	—	1,328
Third party recovery	7,628	3,241	—	—	—	—	10,869
General and administrative - third party recovery	—	—	—	—	—	893	893
Inter-segment revenue	—	—	54,734	—	(54,734)	—	—
Elimination of downstream transactions	(327)	(243)	(4,367)	—	—	—	(4,937)
	106,022	159,253	57,652	—	(54,734)	893	269,086
Operating costs	56,470	66,381	8,042	—	—	—	130,893
Third party costs	7,628	3,241	—	—	—	—	10,869
Inter-segment operating	—	—	54,734	—	(54,734)	—	—
Elimination of downstream transactions	—	—	(4,013)	—	—	—	(4,013)
Operating income	41,924	89,631	(1,111)	—	—	893	131,337
Depreciation and amortization	52,482	74,113	1,448	—	—	—	128,043
(Gain) loss on sale of assets	(145)	(10,412)	(18)	—	—	—	(10,575)
	52,337	63,701	1,430	—	—	—	117,468

Nine months ended September 30, 2016 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Segmented income	(10,413)	25,930	(2,541)	—	—	893	13,869
Loss (gain) from investment in joint ventures	—	—	—	6,730	—	—	6,730
General and administrative	—	—	—	—	—	40,871	40,871
General and administrative - third party costs	—	—	—	—	—	893	893
Foreign exchange	—	—	—	—	—	(2,676)	(2,676)
Finance and transaction costs	—	—	—	—	—	39,779	39,779
Non-controlling interest fair value adjustment	1,421	(7,365)	—	—	—	—	(5,944)
Income taxes	—	—	—	—	—	(24,249)	(24,249)
Net (loss) income	(11,834)	33,295	(2,541)	(6,730)	—	(53,725)	(41,535)
Purchase of property and equipment	13,875	24,262	208	—	—	—	38,345

(1) The loss (gain) from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

Nine months ended September 30, 2015 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Operating revenue	123,412	230,744	93,666	—	—	—	447,822
Other revenue	215	695	4	—	—	—	914
Third party recovery	12,387	6,519	—	—	—	—	18,906
General and administrative - third party recovery	—	—	—	—	—	1,092	1,092
Inter-segment revenue	—	—	95,524	—	(95,524)	—	—
Elimination of downstream transactions	—	(223)	(54,617)	—	—	—	(54,840)
	136,014	237,735	134,577	—	(95,524)	1,092	413,894
Operating costs	73,201	118,614	88,952	—	—	—	280,767
Third party costs	12,387	6,519	—	—	—	—	18,906
Inter-segment operating	—	—	95,524	—	(95,524)	—	—
Elimination of downstream transactions	—	—	(51,966)	—	—	—	(51,966)
Operating income	50,426	112,602	2,067	—	—	1,092	166,187
Depreciation and amortization	25,763	42,188	2,002	—	—	—	69,953
(Gain) loss on sale of assets	1,185	(2,801)	(511)	—	—	—	(2,127)
Elimination of downstream transactions	—	8	—	—	—	—	8
Impairment of capital assets	—	26,937	—	—	—	—	26,937
Impairment of goodwill	—	111,847	—	—	—	—	111,847
	26,948	178,179	1,491	—	—	—	206,618

Nine months ended September 30, 2015 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Segmented income	23,478	(65,577)	576	—	—	1,092	(40,431)
Loss (gain) from investment in joint ventures	—	—	—	(4,741)	—	—	(4,741)
General and administrative	—	—	—	—	—	43,556	43,556
General and administrative - third party costs	—	—	—	—	—	1,092	1,092
Foreign exchange	—	—	—	—	—	9,517	9,517
Finance and transaction costs	—	—	—	—	—	42,267	42,267
Income taxes	—	—	—	—	—	(55,167)	(55,167)
Net (loss) income	23,478	(65,577)	576	4,741	—	(40,173)	(76,955)
Purchase of property and equipment	19,864	93,484	208	—	—	—	113,556

(1) The loss (gain) from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

As at September 30, 2016 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Property and equipment	571,000	907,852	20,454	—	—	—	1,499,306
Intangible assets and goodwill	19,285	13,667	679	—	—	—	33,631
Total assets less deferred tax asset	598,531	1,025,434	21,343	240,760	—	—	1,886,068
Deferred income tax asset (liability)	59,660	(47,646)	24	—	—	—	12,038

(1) The gain from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

As at September 30, 2015 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Property and equipment	773,928	1,031,003	36,157	—	—	—	1,841,088
Intangible assets and goodwill	5,551	7,917	1,302	—	—	—	14,770
Total assets less deferred tax asset	844,395	1,029,749	199,847	249,013	—	—	2,323,004
Deferred income tax asset (liability)	27,164	(92,343)	(1,315)	—	—	—	(66,494)

(1) The gain from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

17. RELATED PARTY TRANSACTIONS

Trinidad engages the law firm of Blake, Cassels & Graydon LLP to provide legal advice. One partner of this law firm is an officer of the Company. During the three and nine months ended September 30, 2016, Trinidad incurred legal fees of \$0.1 million and \$0.7 million, respectively (2015 - \$0.8 million and \$1.2 million, respectively,) to Blake, Cassels & Graydon LLP. At September 30, 2016, \$0.1 million was due to Blake, Cassels & Graydon LLP (December 31, 2015 - less than \$0.1 million).

Trinidad is party to a joint venture arrangement with a wholly-owned subsidiary of Halliburton to operate drilling rigs outside of Canada and the United States through a jointly owned entity. During the three and nine months ended September 30, 2016, Trinidad recorded revenue from Halliburton of nil and \$0.3 million (2015 - nil and \$2.1 million).

18. EXPENSES BY NATURE

The Company presents certain expenses in the consolidated statements of operations and comprehensive income (loss) by function. The following table presents these expenses by nature:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Foreign exchange				
Foreign exchange - realized	930	190	3,799	95
Foreign exchange - unrealized	(1,270)	3,128	(6,475)	9,422
	<u>(340)</u>	<u>3,318</u>	<u>(2,676)</u>	<u>9,517</u>
Finance and transaction costs				
Interest on long-term debt	11,645	12,389	37,670	34,855
Accretion of 2019 Notes	151	138	454	392
Deferred financing costs on long-term debt	584	461	1,655	1,365
Transaction costs	—	4,959	—	5,655
	<u>12,380</u>	<u>17,947</u>	<u>39,779</u>	<u>42,267</u>

19. FOREIGN CURRENCY TRANSLATION

The foreign currency translation adjustment relates to Trinidad's non-Canadian operations that have functional currencies that differ from the Canadian dollar and exchange differences on Trinidad's Senior Notes held in US dollars. When the settlement of a balance is not foreseeable in the near future, foreign exchange gains and losses arising on the translation of inter-company balances are considered part of the net investment in the foreign operation. All amounts will be reclassified to profit or loss when specific conditions are met.

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Unrealized gain on translation of foreign operations with functional currency different from Canadian dollar	17,560	88,007	(65,326)	172,146
Foreign exchange loss on net investment hedge with US dollar denominated debt, net of tax ⁽¹⁾	<u>(6,634)</u>	<u>(29,027)</u>	<u>24,439</u>	<u>(57,276)</u>
Total foreign currency translation adjustment	<u>10,926</u>	<u>58,980</u>	<u>(40,887)</u>	<u>114,870</u>

- (1) Net of tax for the three and nine months ended September 30, 2016 was \$(2.4) million and \$9.0 million respectively (September 30, 2015 - \$10.3 million and \$22.2 million, respectively).

20. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

Nine months ended September 30, (\$ thousands)	2016	2015
Accounts receivable	42,575	71,692
Inventory	(4,094)	16,230
Prepaid expenses	813	18,151
Accounts payable and accrued liabilities	(5,592)	(33,224)
Deferred revenue	(31,464)	(15,988)
	2,238	56,861
Pertaining to:		
Operations	(6,729)	31,293
Investing	8,967	25,568
	2,238	56,861



March 2, 2016

Independent Auditor's Report

To the Shareholders of Trinidad Drilling Ltd.

We have audited the accompanying consolidated financial statements of Trinidad Drilling Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes, which comprise 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.

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trinidad Drilling Ltd. and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (\$ thousands)	Notes	December 31, 2015	December 31, 2014
Assets			
Current Assets			
Cash and cash equivalents	4	63,686	71,062
Accounts receivable		113,870	223,750
Inventory	5	7,136	29,618
Prepaid expenses		7,423	19,755
Asset held for sale	7	2,744	—
		<u>194,859</u>	<u>344,185</u>
Property and equipment	8	1,656,268	1,325,730
Intangible assets and goodwill	9	35,048	99,678
Deferred income taxes	12	54,367	8,070
Investment in joint ventures	10	295,658	163,958
		<u>2,236,200</u>	<u>1,941,621</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		93,795	156,003
Dividends payable		2,221	6,758
Deferred revenue and customer deposits		34,862	14,922
Current portion of long-term debt	11	2,609	—
		<u>133,487</u>	<u>177,683</u>
Long-term debt	11	704,311	527,808
Deferred income taxes	12	60,495	100,239
Non-controlling interest	13	18,448	—
		<u>916,741</u>	<u>805,730</u>
Shareholders' Equity			
Common shares	14	1,374,656	1,093,426
Contributed surplus		64,884	59,005
Accumulated other comprehensive income		203,947	62,470
Deficit		<u>(324,028)</u>	<u>(79,010)</u>
		<u>1,319,459</u>	<u>1,135,891</u>
		<u>2,236,200</u>	<u>1,941,621</u>
Commitments and contingencies	19		

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

For the years ended December 31,
(\$ thousands)

	Notes	2015	2014
Revenue			
Oilfield service revenue		549,772	938,083
Other revenue		2,127	3,251
		<u>551,899</u>	<u>941,334</u>
Expenses			
Operating expense	23	329,733	626,175
General and administrative	23	62,931	65,649
Depreciation and amortization	8 & 9	118,900	125,012
Foreign exchange	23	7,172	5,017
(Gain) loss on sale of property and equipment	8	(1,571)	(8,238)
Impairment of property and equipment	8	205,628	77,535
Impairment of goodwill	9	111,847	—
		<u>834,640</u>	<u>891,150</u>
Loss (gain) from investment in joint ventures	10	1,530	(19)
Finance and transaction costs	23	55,851	39,531
(Loss) earnings before income taxes		<u>(340,122)</u>	<u>10,672</u>
Income taxes			
Current	12	2,757	4,557
Deferred	12	(124,533)	(481)
		<u>(121,776)</u>	<u>4,076</u>
Net (loss) income		<u>(218,346)</u>	<u>6,596</u>
Other comprehensive (loss) income			
Foreign currency translation adjustment for foreign operations, net of income tax	24	141,477	58,066
Foreign currency translation adjustment for non-controlling interest, net of income tax		650	—
		<u>142,127</u>	<u>58,066</u>
Total comprehensive (loss) income		<u>(76,219)</u>	<u>64,662</u>
Net (loss) Income attributable to:			
Shareholders of Trinidad		<u>(218,350)</u>	<u>6,596</u>
Non-controlling interest		<u>4</u>	<u>—</u>
Total comprehensive (loss) income attributable to:			
Shareholders of Trinidad		<u>(76,873)</u>	<u>64,662</u>
Non-controlling interest		<u>654</u>	<u>—</u>
Earnings per share			
Net (loss) income			
Basic / Diluted	16	<u>(1.30)</u>	<u>0.05</u>

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, (\$ thousands)	Notes	Common shares	Contributed surplus	Accumulated other comprehensive income ⁽¹⁾	(Deficit)	Total equity
Balance at December 31, 2014		1,093,426	59,005	62,470	(79,010)	1,135,891
Shares repurchased through normal course issuer bid	14	(14,015)	5,665	—	—	(8,350)
Share-based payment expense		—	214	—	—	214
Total comprehensive (loss) income	24	—	—	141,477	(218,350)	(76,873)
Dividends		—	—	—	(26,668)	(26,668)
Share issuance (net)	6	295,245	—	—	—	295,245
Balance at December 31, 2015		1,374,656	64,884	203,947	(324,028)	1,319,459
Balance at December 31, 2013		1,117,197	50,607	4,404	(58,120)	1,114,088
Exercise of stock options		807	(215)	—	—	592
Shares repurchased through normal course issuer bid	14	(24,578)	8,090	—	—	(16,488)
Share-based payment expense		—	523	—	—	523
Total comprehensive (loss) income	24	—	—	58,066	6,596	64,662
Dividends		—	—	—	(27,486)	(27,486)
Balance at December 31, 2014		1,093,426	59,005	62,470	(79,010)	1,135,891

(1) Accumulated other comprehensive income consists of the foreign currency translation adjustment.
All amounts will be reclassified to profit or loss when specific conditions are met.

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,
(\$ thousands)

	Notes	2015	2014
Cash provided by (used in)			
Operating activities			
Net (loss) earnings		(218,346)	6,596
Adjustments for:			
Depreciation and amortization		118,900	125,012
Foreign exchange		7,172	5,017
(Gain) on sale of property and equipment	8	(1,571)	(8,238)
Impairment of property and equipment	8	205,628	77,535
Impairment of goodwill	9	111,847	—
Loss (gain) from investment in joint ventures	10	1,530	(19)
Finance and transaction costs		55,851	39,531
Income taxes		(121,776)	4,076
Interest income		(34)	(412)
Other ⁽¹⁾		3,218	7,358
Income taxes paid		(10,462)	(2,171)
Income taxes recovered		3,151	2,254
Interest paid		(46,923)	(39,978)
Interest received		34	412
Funds provided by operations		108,219	216,973
Change in non-cash operating working capital	25	107,243	(60,454)
Cash provided by operations		215,462	156,519
Investing activities			
Purchase of property and equipment		(140,047)	(276,647)
Proceeds from disposition of property and equipment		6,230	137,170
Investment in joint ventures	10	(93,094)	(170,427)
Acquisition of CanElson (net)	6	(70,911)	—
Purchase of intangibles	9	(1,082)	—
Change in non-cash working capital	25	29,317	(21,517)
Cash used by investing		(269,587)	(331,421)
Financing activities			
Proceeds from long-term debt		205,790	15,000
Repayments of long-term debt		(130,917)	—
Repurchase of shares	14	(8,350)	(16,488)
Proceeds from exercise of options		—	592
Dividends paid		(31,205)	(27,634)
Finance costs		(784)	(954)
Cash provided (used) by financing		34,534	(29,484)
Cash flow from operating, investing and financing activities		(19,591)	(204,386)
Effect of translation of foreign currency cash		12,215	7,288
Decrease in cash for the year		(7,376)	(197,098)
Cash and cash equivalents - beginning of year		71,062	268,160
Cash and cash equivalents - end of year		63,686	71,062

(1) Other includes share-based payment expense and elimination of downstream transactions in the Manufacturing Operations net earnings.

(See Notes to the Consolidated Financial Statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. STRUCTURE OF THE CORPORATION

Organization

Trinidad Drilling Ltd. ("Trinidad" or the "Company") is incorporated under the laws of the Province of Alberta, Canada. The Company was formed by way of an arrangement under the Business Corporations Act of Alberta pursuant to an arrangement agreement effective March 10, 2008 between the Company and Trinidad Energy Services Income Trust. Trinidad's principal place of business is located at 1000, 585 - 8th Avenue SW, Calgary, Alberta.

Operations

Trinidad's divisions currently operate in the drilling sector of the North American oil and natural gas industry, with operations in Canada and the United States (US). In addition, through joint venture arrangements, Trinidad operates drilling rigs in Saudi Arabia and Mexico, and is currently looking into operations in other international markets. Trinidad is a corporation focused on sustainable growth that trades on the Toronto Stock Exchange under the symbol TDG.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable as at December 31, 2015. As part of this preparation, management is required to make estimates and assumptions under IFRS. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent amounts and the reported amounts of revenues and expenses. Actual results could differ from these estimates. Refer to use of judgements and estimates below for further discussion.

These consolidated financial statements were authorized for issuance by the Board of Directors as of March 2, 2016.

Measurement basis

These consolidated financial statements are presented in Canadian dollars, assuming the Company will continue as a going concern for the foreseeable future. These consolidated financial statements are prepared on a historical cost basis except as specifically noted within these notes.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it earns revenues and incurs expenses, including revenues and expenses from transactions with other Trinidad segments. The Company determines its operating segments based on information that is internally generated and used by the chief operating decision makers within the Company to make determinations about allocation of resources and assessments of performance.

Trinidad noted that per IAS 8 - Operating segments (IAS 8), Trinidad's joint venture operations did not meet the quantitative thresholds required to be separately reportable. However, as management believes it would be useful for users of the financial statements to have this segment separately disclosed, this information was taken into consideration.

Accordingly, Trinidad has identified five operating segments.

- Canadian operations - includes land drilling services.
- US and international operations - includes land and barge drilling services located in both the US and international markets.

- Joint venture operations - includes all international joint venture operations.
- Manufacturing operations - includes manufacturing work performed in each of the Canadian and US manufacturing divisions.
- Corporate - includes all non-operating activities and acts as a support function to the other segments.

Use of judgment and estimates

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by Trinidad are believed to be reasonable under current circumstances, actual results could differ.

Significant judgments are used in the application of accounting policies related to the following material amounts recognized in the consolidated financial statements:

- Determination of functional currency.** The determination of the functional currency is a matter of determining the primary economic environment in which an entity operates. IAS 21 - The Effects of Changes in Foreign Exchange Rates (IAS 21) sets out a number of factors to apply in making the determination of the functional currency. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies within a subsidiary, Trinidad uses judgment in the ultimate determination of that subsidiary's functional currency. Judgment was applied in the determination of the functional currency of the Company's Mexican operating entity and labour company, whose functional currencies were determined to be the US dollar and Mexican peso, respectively. The functional currency of the Canadian operations was determined to be the Canadian dollar and the US and international operations was determined to be the US dollar. The functional currency of the Manufacturing operations consists of Canadian and US manufacturing divisions whose functional currencies were determined to be Canadian and US dollars, respectively. The functional currency of Trinidad's joint venture operations is the US dollar, including operations in Saudi Arabia and Mexico (refer to note 10 for detailed discussion of the determination of functional currency for joint venture operations).
- Assessment of impairment indicators.** Trinidad tests impairment of long-lived assets with determinate useful lives when indications of impairment exist. Application of judgment is required in determining whether an impairment test is warranted (note 8 and 9).

Trinidad uses significant estimates in the determination of a number of account balances. These estimates have a significant risk of causing a material adjustment to the carrying amounts of the underlying assets and liabilities within the next fiscal year. Material accounts subject to significant estimates are as follows:

- Depreciation of property and equipment.** Refer to the Company's significant accounting policies (note 3) for a detailed discussion.
- Income taxes.** Refer to the Company's significant accounting policies (note 3) for a detailed discussion.
- Impairments.** Refer to the Company's significant accounting policies (note 3) for a detailed discussion of the valuation assessment and impairment of non-financial assets and financial instruments.
- Allowance for doubtful accounts.** Trinidad regularly performs a review of outstanding accounts receivable balances greater than 90 days to determine eventual collectability. If an account is deemed uncollectible, a provision for bad debt is recorded. Trinidad also analyzes the provision for bad debt regularly to determine if any of the accounts provided for should be written off. These accounts which are deemed uncollectible could materially change as a result of changes in a customer's financial situation.

- e) **Revenue recognition.** Refer to the Company's significant accounting policies (note 3) for a detailed discussion.
- f) **Purchase price equation.** Refer to the business combinations note included in the Company's significant accounting policies (note 3) as well as a detailed discussion of estimates made in the valuation of the business combination (note 6).

Seasonality

Trinidad operates a substantial number of rigs in western Canada, and therefore, operations are heavily dependent upon the seasons. The winter season is typically a busy period as oil and natural gas companies take advantage of frozen conditions to move drilling rigs into regions which might otherwise be inaccessible to heavy equipment due to swampy conditions. Spring time normally encompasses a slow period referred to as spring break-up. During this period, melting conditions result in temporary municipal road bans that effectively prohibit the movement of drilling rigs. The remainder of the year is usually representative of average activity levels.

Industry conditions have an effect on how seasonality affects Trinidad's activity. As well, Trinidad's expansion into the US and international markets has reduced its overall exposure to the seasonal factors that are present in its Canadian operations. These seasonal conditions typically limit Canadian drilling activity, whereas in the US and international areas, operators have increased flexibility to work throughout the year. This increased number of operating days throughout the year has allowed Trinidad to better manage its business with more sustainable cash flows throughout the year.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of Trinidad and the subsidiaries it controls. Control exists when the Company has power over the subsidiary, is exposed, or has rights, to variable returns from involvement with the subsidiary and has the ability to affect the returns through the use of its power over the subsidiary. The financial statements of the Trinidad subsidiaries are prepared for the same reporting period and apply policies that are consistent with the parent company. All intercompany balances and transactions between Trinidad and each of its wholly owned subsidiaries have been eliminated.

Non-controlling interest

Non-controlling interests arise from business combinations in which Trinidad acquires less than a 100 percent interest. Non-controlling interests are initially measured at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable assets. With respect to the acquisition of CanElson Drilling Inc. (CanElson), all non-controlling interests were valued based on the fair value method using forecasted cash flows.

Subsequent to acquisition, the carrying amount of non-controlling interests is increased or decreased by the non-controlling interest's share of subsequent changes in net (loss) income and comprehensive (loss) income, as well as dividends or cash disbursements made to the non-controlling interest. Total comprehensive income is attributed to the non-controlling interests even if the result is the non-controlling interest becoming a debit balance.

For non-wholly owned subsidiaries, interests held by external parties that the Company consolidates are shown as non-controlling interest. Non-controlling interests in the net (loss) income of Trinidad's non-wholly owned consolidated subsidiaries are included in total net (loss) income. Non-controlling interests in other comprehensive (loss) income of Trinidad's non-wholly owned consolidated subsidiaries are included in total other comprehensive (loss) income. An exception to this occurs where the non-wholly owned subsidiary's shares are required to be redeemed for cash on a fixed or determinable date, in which case non-controlling interest in the subsidiary is removed from net (loss) income and comprehensive (loss) income and is presented as a liability.

Midland C Ranch Holdings, LLC (Midland), CanElson 120601 Drilling Limited Partnership #1 (LP#1), CanElson 120601 Drilling Limited Partnership #2 (LP#2), and CanElson 120601 Drilling Limited Partnership #3 (LP#3) were acquired as part of the CanElson acquisition. The Company controls the relevant activities of these entities through services performed by virtue of contractual arrangements. Consequently, the Company consolidates its investments in these entities. Non-controlling interest represents the interest of non-controlling units held by third parties. The non-controlling interests of Midland, LP#1, LP#2, and LP#3 are presented as a liability because their shares are required to be redeemed for cash on a fixed or determinable date.

Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control and must act together to direct the activities that significantly affect the returns of the arrangement. Under IFRS 11 – Joint arrangement, the Company classifies its interest in joint arrangements as either joint operations or joint ventures. When making this assessment, the Company considers the structure and contractual terms of the arrangement, as well as the legal form of any separate vehicles, in addition to all other relevant facts and circumstances.

Joint operations are recognized on a proportionate consolidation basis by including the Company's share of assets, liabilities, revenues and expenses and other comprehensive income in each of the respective consolidated accounts. Joint ventures are recognized using the equity method of accounting. The Company's share of individual assets and liabilities are recognized as an investment in the joint venture account on the consolidated statements of financial position, and revenues and expenses are recognized with net earnings as a gain/loss from investment in joint venture account on the consolidated statements of operations and comprehensive income.

Diavaz CanElson de Mexico, S.A. de C.V. (DCM) was acquired as part of the CanElson acquisition. Trinidad has a 50% ownership in DCM and each of the parties have equal voting rights. The joint venture partners have joint control over the relevant activities of this joint venture and as such DCM is accounted for in these consolidated financial statements using the equity method of accounting.

Trinidad participates in a joint venture, Trinidad Drilling International (TDI) with Halliburton. Trinidad owns 60% of the shares of TDI and each of the joint parties have equal voting rights. Trinidad considers the investment to be a financial asset at fair value through profit or loss and recognizes changes in fair value of the investment in the statement of operations and comprehensive income (loss) as a gain (loss) from joint ventures.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at bank and cash in hand, including offsetting bank overdrafts, short-term investments and similar instruments that have a maturity of three months or less at the date of acquisition. In reporting periods where bank overdrafts exceed cash and cash equivalents, the balance will be referred to as bank indebtedness.

Inventory

Inventory consists of parts, materials and labour related to the construction, recertification, refurbishment and maintenance of rigs and rig-related equipment. Inventory is measured at the lower of average cost or net realizable value.

Inventory cost is based on expenditures incurred to render the goods saleable and includes costs to acquire the parts, direct labour and related overhead. Net realizable value is based on the estimated selling price less cost to complete and sell in the ordinary course of business.

Work-in-process inventory is comprised of assets being constructed for sale externally and long lead items, which the Company may acquire and begin standard rig modifications on prior to having a specific rig construction project identified to minimize construction delays.

Assets held for sale

Non-current assets, and disposal groups, are classified as assets held for sale when the carrying amount is to be recovered principally through a sales transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying value amount and fair value less cost to sell. Assets held for sale are not depreciated.

If an asset classified as an asset held for sale no longer meets the criteria required, whereby the completion of the sale within one year from the classification date is no longer relevant, or the Company has changed their plans of selling the asset at all, the asset is re-classified back to property and equipment. The value of the asset is then adjusted to the lower of either the carrying amount before the asset was classified as an asset held for sale, adjusted for depreciation and any other adjustments that would have taken place, or its recoverable amount at the date of the subsequent decision not to sell.

Property and equipment

Items of property and equipment are recorded at cost less accumulated depreciation and net impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Costs associated with three year mandated major inspections, overhauls and re-certifications are capitalized. However, general repair and maintenance expenditures are expensed as incurred.

The cost of rigs constructed includes cost of materials, direct labour, and construction overhead and any other costs directly attributable in readying the asset for its intended use. Accumulated costs are reported as assets under construction until the related asset is ready for use, at which time it will be subject to depreciation, or is subsequently sold. Advances to suppliers related to rig construction are reported as deposits on property and equipment and transferred to assets under construction as the underlying costs are incurred.

Disposals are removed at cost less accumulated depreciation and net impairment losses with any resulting gain or loss reflected as a separate line item in the consolidated statements of operations and comprehensive income.

When material parts of an item of property and equipment have different useful lives, they are accounted for as separate components. The cost less residual value of a component of property and equipment is depreciated over its estimated useful life as follows:

Rigs and related equipment

Land and barge rigs

Drawworks , mast and substructure	up to 20 years	Straight-line	(up to 10% salvage value)
Blow out preventer, boilers and top drives	up to 15 years	Straight-line	
Top drives	up to 15 years	Straight-line	(up to 10% salvage value)
Buildings and electrical	up to 10 years	Straight-line	(up to 10% salvage value)
Mud pumps, and mud systems	up to 10 years	Straight-line	
Drill pipe and tubular	up to 6 years	Straight-line	
Recertification	1,000 drill days	Unit-of-production	
Other Recertifications	up to 5 years	Straight-line	
Hull	up to 20 years	Straight-line	(up to 10% salvage value)
Major inspections	1,500 drill days	Unit-of-production	
Drilling and coring rig spare equipment	up to 15 years	Straight-line	(up to 10% salvage value)

Automotive and other equipment

Crew boats	15 years	Straight-line	
Office furniture and other equipment	5 years	Straight-line	
Automotive equipment	up to 4 years	Straight-line	(up to 10% salvage value)

Other assets

Buildings	up to 25 years	Straight-line	
Leasehold Improvements	term of lease		
Construction equipment	5 to 20 years	Straight-line	

Useful lives and the depreciation methods are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

During the fourth quarter of 2015, in light of current and expected market conditions, Trinidad undertook a review of its current depreciation methodology for all rigs and related equipment. As a result, as of October 1, 2015, the Company determined that using a straight-line method (versus unit of production) and a lower salvage value would more accurately reflect the future economic benefits related to these assets. These adjustments were applied prospectively and caused an increase in depreciation expense for the year ended December 31, 2015 of approximately \$11.5 million. Trinidad expects this adjustment to increase depreciation in future periods; however, quantifying this amount would be impracticable due to the uncertainty of operating days in 2016. Using the above adjusted useful life estimates will allow the Company to reflect a more accurate pattern of future economic benefits to these assets (note 8).

Borrowing costs

Trinidad capitalizes borrowing costs associated with specific and general debt that is directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Intangible assets and goodwill

All intangible assets are carried at cost less accumulated amortization and net impairment losses. The cost of an intangible asset acquired in a business combination is initially measured at fair value at the date of acquisition. Internally generated intangible assets are initially measured at historical cost as expenditures are made starting from the date the expenditures qualify for recognition as an asset.

All intangible assets are amortized over their estimated useful lives as follows:

Acquired in business combinations

Patents	10 years	Straight-line
Non-compete agreements	3 years	Straight-line
Customer Relationships	2 years	Straight-line

Internally developed

Engineering and design	5 years	Straight-line
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Useful lives and the amortization methods are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill arises only in business combinations and represents the excess of the purchase price over the fair values of the net assets acquired. Goodwill is carried at cost less accumulated impairment losses and is not subject to amortization.

Impairment of non-financial assets

Property and equipment and intangible assets with definitive lives are subject to an impairment test whenever there are indications that the carrying amount may not be recoverable. Goodwill is tested for impairment at least annually, on December 31, and more often if circumstances indicate its carrying amount may not be recoverable.

Assets are tested individually unless they do not generate cash inflows that are largely independent of other assets. Where cash inflows are not independent, individual assets are grouped into the smallest group of assets that generates independent cash inflows ("Cash Generating Units" or "CGU"). The Company's drilling related CGUs are aggregated by geographic location, based on rig type. The Company's construction related assets are also aggregated into one CGU. Goodwill is allocated to individual or groups of CGUs that are expected to benefit from the synergies of the business combination, in which the goodwill arose, with the grouping of CGUs being no larger than an operating segment.

The recoverable amount of an asset, CGU or group of CGUs is the greater of its value in use and its fair value less costs of disposal. Trinidad determines fair value less costs of disposal based on the best information available to reflect the amount that could be obtained from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, net of estimates of the cost of the disposal. In assessing value in use, the estimated future cash flows of the asset, CGU or group of CGUs are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, CGU or group of CGUs.

An impairment loss is recognized if the carrying amount of an asset, CGU or group of CGUs exceeds its recoverable amount. Where an impairment loss arises on CGUs with allocated goodwill, the loss is allocated first to reduce the carrying amount of the goodwill and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis. Impairment losses are recognized immediately as a separate line item in the consolidated statements of operations and comprehensive income.

A previous impairment, other than an impairment of goodwill, is subsequently assessed for any indications that the impairment is reduced or no longer exists. An impairment loss is reversed if there has been an increase in the recoverable amount of an asset or CGU compared to its current carrying value. Impairment losses are reversed only to the extent that the assets or CGUs carrying amount would not exceed the carrying amount that would have been reported if no impairment loss had been recognized. Impairment losses on goodwill are never reversed.

Income taxes

Income tax expense is comprised of current and deferred tax. Tax is recognized in the consolidated statements of operations and comprehensive income except to the extent that it relates to items recognized in other comprehensive income or equity on the statements of financial position.

Current tax

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to taxation authorities.

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Income tax estimates

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

Uncertain tax positions

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risks with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result

from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Common shares

Common shares are classified as equity. Costs directly attributable to the issue of common shares are recognized as a reduction of equity, net of any tax effects.

Revenue recognition

Revenue for contract drilling is only recognized when drilling has occurred and collectability is reasonably assured. If collection is subsequently determined to be in doubt, an allowance is recognized against accounts receivable with a corresponding expense included within general and administrative expense in the consolidated statements of operations and comprehensive income; revenue is not adjusted.

Early termination revenue occurs when a customer has decided to negotiate the termination of an existing drilling contract before the expiration of the original terms of the contract. Early termination revenue is recognized when an amount has been agreed upon by both parties, collection is probable, and the Company does not have any further services to render in order to earn the estimated revenue. These amounts are generally recorded as lump sum payments when a contract is cancelled. Some early termination contracts include a clause that would nullify a portion of the early termination revenue if the rig was re-contracted to a new customer. In these cases, the Company recognizes the early termination amounts on a monthly basis as earned until the contract is complete or the rig is re-contracted and the early termination contract is nullified. Amounts collected are recorded in deferred revenue initially and amortized into revenue per an appropriate recognition method.

Standby revenue occurs when a rig is contracted to a customer and drilling has been suspended for a period of time. The amount recorded is based on a standby rate included in the drilling contract. Standby revenues are recognized when the terms of the drilling contract include a standby clause, an amount has been agreed upon by both parties, and collection is probable. Standby contracts generally include a clause that if the rig is re-contracted to another customer, the standby rate is no longer applicable. Therefore, the Company recognizes these amounts on a monthly basis until the standby contract is complete or the rig is re-contracted and the standby contract is nullified.

Trinidad uses the percentage of completion method to account for certain long-term construction contracts in the Manufacturing operations. These contracts represent cost-plus type contracts. Total actual costs are compared to total expected costs to evaluate the percentage completion of the relevant project. This percentage is then applied to the expected revenue of the project. This method of accounting for contracts requires Trinidad to make estimates regarding the total costs of the project, progress against the project schedule and the estimated completion date, all of which impact the amount of revenue and gross margin recognized in each reporting period. Senior management reviews these estimates at each reporting period.

Share-based payments

Incentive Option Plan

Compensation expense associated with options granted under the Company's Incentive Option Plan (Option Plan) is deferred and recognized in general and administrative expense over the vesting period of the options. Awards issued under the Option Plan are equity-settled awards, and therefore, the expense is offset to contributed surplus. Trinidad measures the fair value of options at the date of grant using a Black-Scholes option pricing model. For options with graded vesting terms, fair value is determined for each vesting period as if it were a separate award. An estimate of forfeitures is applied to the total options expected to vest which is trued up to actual forfeitures at each vesting date.

Deferred Share Unit Plan

Units issued under the Company's Deferred Share Unit (DSU) long-term incentive plan are measured at fair value when granted and subsequently re-measured at each reporting date. The associated expense is recognized entirely in general and administrative expense as the DSUs vest immediately. DSUs are cash-settled awards, and therefore, the expense is offset to accounts payable and accrued liabilities. Fair value of the DSUs is determined using the volume weighted average of Trinidad's stock price for the five day period preceding the reporting date.

Performance Share Unit Plan

Units issued under the Company's Performance Share Unit (PSU) long-term incentive plan are initially measured based on fair value when granted. The fair value of outstanding units is re-measured at each reporting date. The associated expense is recognized in general and administrative expense over the vesting periods of the PSU. Vesting of the PSUs occurs over a period of time determined at the date of grant and all PSUs are exercisable upon vesting. PSUs are cash-settled awards, and therefore the expense is offset to accounts payable and accrued liabilities. Fair value of the PSUs is determined using the volume weighted average of Trinidad's stock price for the five day period preceding the reporting date.

Stock Appreciation Rights Plan

Units issued under the Company's Stock Appreciation Rights (SAR) long-term incentive plan are initially measured based on the fair value when granted. The fair value of outstanding units is re-measured at each reporting date. The associated expense is recognized in general and administrative expense over the vesting period of the SAR. Vesting of the SARs occurs over a period of time determined at the date of the grant, taking into consideration the separate tranches issued. SARs are cash-settled awards, and therefore the expense is offset to accounts payable and accrued liabilities. Fair value of the SARs is calculated based on the spread of the grant price and Trinidad's closing stock price at the date of valuation.

Earnings per share

Basic earnings per share is computed by dividing net earnings attributable to shareholders by the weighted average number of shares outstanding. Diluted earnings per share amounts are computed by dividing net earnings attributable to shareholders plus interest on any dilutive convertible instruments by the weighted average dilutive shares outstanding. Dilutive shares are determined by taking the weighted average number of shares outstanding and giving effect to the potential dilution that would occur if in-the-money options granted pursuant to the Option Plan were exercised under the treasury stock method and the dilution, if any, that would occur upon the conversion of the convertible instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money options are used to repurchase Trinidad shares at market prices.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the applicable entity at the exchange rate in effect at the time of the transaction. Monetary items are then re-translated into the entity's functional currency at each reporting period at the exchange rates in effect at the statements of financial position date. Non-monetary items are not re-translated. Revenues and expenses denominated in foreign currency are translated at rates in effect at the time of the transactions. Gains and losses on foreign currency transactions are included as a separate line item in the consolidated statements of operations and comprehensive income.

Foreign currency translation

Trinidad's non-Canadian operations have functional currencies that differ from the Canadian dollar, and therefore, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the

statements of financial position date and revenues and expenses are translated at the average exchange rates for the relevant period. Translation gains or losses are included in other comprehensive income. When the settlement of an intercompany receivable from or intercompany payable to a foreign operation is neither planned nor likely foreseeable in the future, foreign exchange gains or losses arising on the translation of those intercompany balances is considered a part of the net investment in the foreign operation and are recognized in other comprehensive income.

Financial instruments and hedge accounting

Trinidad's financial instruments consist of cash and cash equivalents, accounts receivable, investment in TDI joint venture, accounts payable and accrued liabilities, dividends payable, limited partnership loan, long-term debt and non-controlling interest liability. The fair value of these financial assets and liabilities approximates their carrying value, unless otherwise noted.

Financial instruments - recognition and measurement

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as a "financial asset or financial liability at fair value through profit or loss", or "financial liabilities measured at amortized cost" or "financial assets or financial liabilities at fair value through other comprehensive income".

The Company currently holds both the Trinidad Drilling International (TDI) joint venture as well as the Non-controlling interest as "financial assets or financial liabilities at fair value through profit or loss". Changes in fair value are recognized in the consolidated statements of operations and comprehensive income. Trinidad assesses the value of the TDI joint venture by using a discounted cash flow model. This calculation requires the use of estimates, including: future drilling activity and utilization of the drilling rigs, prices, operating costs, discount rates, timing of new property and equipment and other assumptions. A change in an estimate used can change the calculated fair value of this investment. If the fair value calculated is different from the net book value of this investment, an entry is recorded with the offset recorded through the consolidated statements of operations and comprehensive income (loss).

Trinidad's "financial liabilities measured at amortized cost" consist of bank indebtedness, accounts payable and accrued liabilities, dividends payable, and long-term debt. They are recognized at amortized cost, using the effective interest rate method, at each reporting period, net of transaction costs directly attributable to the issuance of the long-term debt. Transaction costs related to the issuance of any long-term debt are netted against the carrying value of the associated long-term debt and amortized as part of financing costs over the life of that debt using the effective interest rate method.

The Company currently has no "financial assets or financial liabilities at fair value through other comprehensive income".

Financial instruments - fair value disclosures

Trinidad discloses its financial instruments within a hierarchy prioritizing the inputs to fair value measurements at the following three levels:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Hedges

Trinidad utilizes derivative financial instruments to manage economic exposure to market risks relating to fluctuations in interest rates on outstanding floating rate debt. The Company formally documents all relationships between hedging instruments and the hedged items, the risk management objective and the method for assessing the effectiveness of the hedge. The effectiveness of the hedge is assessed both at inception of the hedge and throughout its term.

Trinidad's US dollar-denominated long-term debt has been designated as a hedge of the net investment in self-sustaining foreign operations. As a result, unrealized foreign exchange gains and losses on the US dollar-denominated long-term debt are offset against foreign exchange gains and losses arising from the translation of the self-sustaining foreign subsidiaries' accounts and are included in the cumulative translation account in other comprehensive income.

Derivative financial instruments are not used for trading or speculative purposes.

Business combinations

Business combinations are accounted for using the acquisition method whereby the total consideration paid by Trinidad, including assets given up, liabilities incurred or assumed, equity instruments issued, and applicable contingent considerations, is allocated to the fair value of the identifiable net assets of the acquired business. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. If total consideration is less than the fair value of the identifiable net assets, the deficiency is reported entirely as a gain in the consolidated statements of operations and comprehensive income.

When a business combination includes a non-controlling interest, the non-controlling interest is initially measured based on either (i) its fair value or (ii) the proportionate share of the fair value of the identifiable net assets acquired. The measurement basis is made on a transaction by transaction basis.

Expenses directly attributable to a business combination, other than any costs associated with the issuance of debt or equity, are expensed as incurred.

New standards adopted

IFRS 9 - Financial Instruments: Effective January 1, 2015, Trinidad adopted IFRS 9 - Financial Instruments (IFRS 9) issued by the IASB in November of 2013. The new standard replaces the majority of the guidance of IAS 39 - Financial Instruments - Recognition and Measurement (IAS 39). The nature of the changes include a reduction and replacement of the classification and measurement models for financial assets. Previously, IAS 39 prescribed multiple categories and measurement methods, whereas IFRS 9 has two categories, amortized cost or fair value, either through profit or loss or other comprehensive income. Determination of the classification and measurement model to be applied is made at the time of initial recognition.

The financial liabilities related sections retained most of the IAS 39 requirements. The main change arises when a Company chooses to designate a financial liability as fair value through profit or loss. For liability instruments with this designation, any change in fair value related to a company's own credit risk is recognized in other comprehensive income rather than net earnings. IFRS 9 replaced the models for measuring equity instruments and related dividends which limits recognition to fair value through profit or loss or fair value through other comprehensive income.

As a result of adopting IFRS 9, Trinidad's financial assets that were categorized in loans and receivables at December 31, 2014, have been reclassified to financial assets at amortized cost. The Company's investment in TDI has been classified as a financial asset at fair value through profit or loss. There were no changes to the

classifications of the Company's financial liabilities. There were no changes in the carrying values of Trinidad's financial instruments as a result of the adoption of IFRS 9. The classification and measurement guidance was adopted retrospectively in accordance with the transition provision of IFRS 9.

Trinidad also adopted the new hedge accounting guidance in IFRS 9 which replaced the strict quantitative tests of effectiveness with less restrictive assessments of how well the hedging instrument meets the Company's risk management objectives for financial and non-financial risks. IFRS 9 also allows Trinidad to hedge risk components of non-financial items which meet certain measurability or identifiable characteristics. Upon adoption of IFRS 9, Trinidad reassessed its net investment hedge with respect to the new requirements. The hedging relationships were continued under IFRS 9. The hedge accounting requirements were applied prospectively in accordance with the transition provisions of IFRS 9.

After adopting IFRS 9, the Company's accounting policies are substantially the same as at December 31, 2014, except for the change in financial asset categories as discussed above.

New standards not yet adopted

A number of new standards and amendments to existing standards have been issued by the IASB that are effective after December 31, 2015. These standards have not been applied to these financial statements. These new standards and amendments and their anticipated impact on Trinidad's consolidated financial statements once they are adopted are as follows:

IFRS 9 - Financial Instruments: An amendment to IFRS 9 that includes guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective for annual periods beginning on or after January 1, 2018. Trinidad is currently assessing the impact of the amendment on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers: IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to record revenue from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 - Leases or other IFRS standards. Under IFRS 15, revenue is to be recognized to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard is effective for annual periods beginning on or after January 1, 2018, using either a full retrospective approach for all periods presented in the period or a modified retrospective approach. Trinidad is currently evaluating the impact of the new standard.

IFRS 16 - Leases: IFRS 16 replaces the previous guidance on lease recognition and establishes principles for recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however will remain largely unchanged. The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 – Revenue from Contracts with Customers, has also been applied. Trinidad is currently assessing the impact of the amendment on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Cash and cash equivalents	63,686	71,062

Cash and cash equivalents are comprised of cash at bank and cash on hand, less cheques in transit, and short-term investments and similar instruments that have a maturity of three months or less at the date of acquisition. The bank accounts are tied to a master netting agreement, and as such, are disclosed as a total consolidated balance on the consolidated statements of financial position. There is only one bank account that is excluded from the master netting agreement; the balance of this account at December 31, 2015 was \$0.9 million (December 31, 2014 - nil).

Available within Trinidad's credit facility is a \$10.0 million Canadian bank overdraft, and a \$10.0 million US bank overdraft. Trinidad uses the bank overdraft as part of its short-term cash management strategy, to minimize the requirement of carrying cash on hand to cover outstanding cheques and deposits. The bank overdraft is subject to the same terms and conditions as the revolving facility (note 11).

5. INVENTORY

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Parts and materials	6,913	7,511
Work-in-process	223	22,107
Total inventory	7,136	29,618

During the year ended December 31, 2015, Trinidad recognized an impairment on inventory items of \$0.3 million (2014 - nil).

The amount of inventory used during the year was \$148.7 million (2014 - 173.6 million). This amount was recognized as an expense in the consolidated statement of operations and comprehensive income (loss) during the year.

6. BUSINESS COMBINATION

Effective August 11, 2015, Trinidad acquired all of the issued and outstanding shares of CanElson at 1.0631 common shares of Trinidad for each CanElson share, or \$4.90 in cash per CanElson share to a maximum cash consideration of \$50.0 million. As a result of the elections made by CanElson shareholders, Trinidad paid the full \$50.0 million in cash and the remainder of the acquisition in common shares of Trinidad (88,661,926 Trinidad common shares). CanElson was a drilling company that operated land-based contract drilling rigs in Canada, the United States and Mexico. The strategic business combination was completed to create a stronger, more diverse North American drilling company with growth prospects internationally.

On August 11, 2015, the opening value of the common shares of Trinidad were \$3.33 per share which is the fair value of the consideration transferred.

The following summarizes the major classes of consideration transferred at the acquisition date:

<u>Classes of Consideration Transferred</u> <u>(\$ thousands)</u>	<u>August 11, 2015</u>
Cash paid	50,000
Shares issued	295,245
Total consideration paid	345,245

The acquisition has been accounted for using the acquisition method, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill. The Company assessed the fair values of the net assets acquired based on management's best estimate of the market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount that it is expected to settle the outstanding liabilities. Subsequent to the acquisition date, CanElson's operating results have been included in the Company's revenues, expenses and capital spending.

<i><u>Assets and Liabilities Acquired</u></i> (\$ thousands)	<u>August 11, 2015</u>
Working capital	29,517
Goodwill	32,302
Property and equipment	385,865
Intangible assets	900
Limited partnership loans	(2,899)
Long-term debt	(34,500)
Deferred tax liability	(49,363)
Non-controlling interests	(16,577)
Total assets acquired and liabilities assumed	<u>345,245</u>

The allocations and determinations of the consideration described above are preliminary and subject to change upon final adjustment. Due to additional information obtained about the facts and circumstances that existed at the acquisition date adjustments were made to the purchase price equation during the fourth quarter of 2015. These adjustments resulted in a decrease to working capital of \$1.1 million, an increase in goodwill of \$20.0 million, a decrease in property and equipment of \$9.1 million and an increase in the deferred tax liability of \$9.8 million.

The goodwill arises as a result of the assembled workforce, the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining CanElson with the rest of the Company. None of the goodwill recognized is expected to be deductible for income tax purposes. The intangible assets are a result of customer relationships established by CanElson.

As part of the acquisition, Trinidad assumed \$34.5 million in long-term debt held by CanElson. The entire balance was settled upon closing the transaction. Therefore, for purposes of the purchase equation, the amount is included in the total assets and total liabilities assumed. The cash movement has been included in the acquisition in CanElson (net) in the consolidated statements of cash flows for the year ended December 31, 2015 as total cash paid of \$50.0 million, plus the amount paid to settle the debt of \$34.5 million less cash acquired of \$13.6 million.

From the date of acquisition on August 11, 2015, CanElson contributed an estimated \$45.0 million of revenue and \$1.6 million of net income before tax to the Company. If the business combination had been completed on January 1, 2015, the estimated revenue and net income before income tax for the year ended December 31, 2015 would have been \$162.8 million and \$21.7 million, respectively.

The Company incurred costs related to the acquisition of CanElson for the year ended December 31, 2015, of \$5.7 million. These costs mainly relate to due diligence and external legal fees as well as transaction costs for employee related expenditures. These costs have been included in finance and transaction costs on the consolidated statements of operations and comprehensive income and (loss). Details of the finance and transaction costs are disclosed in note 23.

For a discussion on the accounting treatment and consolidation methods applied to the above, please refer to the significant accounting policies described in note 3.

7. ASSETS HELD FOR SALE

During the year ended December 31, 2015 Trinidad identified property included in the Canadian division that was being underutilized and as such determined that the maximum value for this asset would only be realized through a sales transaction. As of December 31, 2015, this asset has been reclassified to assets held for sale as it is currently being marketed. It has been valued at the lower of the carrying value and fair value less cost to sell, with the fair value based on the current listing price.

8. PROPERTY AND EQUIPMENT

Property and equipment as at and for the period ended December 31, 2015 and December 31, 2014 are as follows:

(\$ thousands)	Rigs and related equipment	Automotive and other equipment	Buildings	Construction equipment	Land	Assets under construction	Total
Cost							
Balance as at January 1, 2014	1,925,256	21,333	46,308	4,046	10,236	73,347	2,080,526
Additions /transfers	141,420	6,294	5,669	24	1,414	142,734	297,555
Disposals	(181,772)	(1,989)	(3,331)	(701)	(578)	—	(188,371)
Effect of foreign exchange	110,537	1,111	1,494	96	196	1,560	114,994
Balance as at December 31, 2014	1,995,441	26,749	50,140	3,465	11,268	217,641	2,304,704
Additions/transfers	267,081	8,867	—	147	—	(150,695)	125,400
CanElson Additions	362,807	1,900	3,500	—	2,000	15,658	385,865
Disposals	(22,174)	(6,239)	(1,138)	—	(506)	132	(29,925)
Assets held for sale	—	—	(1,750)	—	(1,000)	—	(2,750)
Effect of foreign exchange	262,025	2,456	3,451	224	466	14,375	282,997
Balance as at December 31, 2015	2,865,180	33,733	54,203	3,836	12,228	97,111	3,066,291
Accumulated depreciation							
Balance as at January 1, 2014	778,882	14,427	8,459	3,293	—	—	805,061
Depreciation	119,544	2,909	2,013	284	—	—	124,750
Impairment loss	77,535	—	—	—	—	—	77,535
Disposals	(78,250)	(1,509)	(790)	(701)	—	—	(81,250)
Effect of foreign exchange	51,891	683	225	79	—	—	52,878
Balance as at December 31, 2014	949,602	16,510	9,907	2,955	—	—	978,974
Depreciation	111,159	3,897	2,423	214	—	—	117,693
Impairment loss	205,628	—	—	—	—	—	205,628
Disposals	(18,672)	(5,305)	(905)	8	—	—	(24,874)
Assets held for sale	—	—	(6)	—	—	—	(6)
Effect of foreign exchange	130,327	1,533	552	196	—	—	132,608
Balance as at December 31, 2015	1,378,044	16,635	11,971	3,373	—	—	1,410,023
Net book value							
December 31, 2015	1,487,136	17,098	42,232	463	12,228	97,111	1,656,268
December 31, 2014	1,045,839	10,239	40,233	510	11,268	217,641	1,325,730

Included in additions to property and equipment for the period ended December 31, 2015 and December 31, 2014, is \$1.3 million and \$3.1 million, respectively, of capitalized borrowing costs based on a capitalization rate of 6.69% and 8.76%, respectively. For the period ended December 31, 2015, the disposals mainly related to various non-core assets in the US and Canadian divisions and some land in the Manufacturing division.

At December 31, 2015, impairment for the year was \$205.6 million (2014—\$77.5 million). In the fourth quarter, due to a further decline in commodity prices and a more pessimistic view of short-term market conditions, the Company determined there were indications of impairment present. At December 31, 2015, the company completed an assessment and recognized an impairment loss of \$178.7 million.

Included in the Canadian segment was impairment expense of \$103.7 million. This amount partially related to the decommissioning of 10 drilling rigs, which accounted for impairment of \$24.7 million (two of the decommissioned rigs were singles and eight were doubles). In addition, the Canadian segment had an impairment of \$79.0 million related to its active singles and doubles (the lower specification rigs) as well as the associated capital spares.

Included in the US and international segment was impairment expense of \$75.0 million. This amount partially related to the decommissioning of five rigs, which resulted in an impairment of \$9.7 million. These decommissioned rigs were lower technology and lower capacity rigs, which the company determined would not return to service in 2016 and were made up of three singles and two doubles. In addition, the US and international segment had an impairment of \$65.3 million related to capital inventory and other equipment.

The impairment analysis was completed by comparing the total estimated future cash flows to the net book value at December 31, 2015. The recoverable amounts of all cash generating units (CGUs) was based on its value in use and was determined by estimating the future cash flows that would be generated from the continuing operations of the relevant CGUs, incorporating the following assumptions:

1. A weighted average pre-tax discount rate of 14.6% to 13.1%, which considered the industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels.
2. Five year forecasted cash flows, taking into consideration current industry conditions, actual 2015 operating results and past experience.
3. A terminal value was based on the average of the five year cash flows, assuming no annual growth rate for the cash flows through the remainder of the segment's life.
4. Cash flow assumptions based on recent board reviewed forecast.
5. All CGU's have been valued using the value in use method using the above assumptions.

The Company anticipated that revenue generation and utilization levels would remain depressed for the next two years (2016 and 2017), with slight improvement occurring in the second year. In the third and fourth year's revenue generation and utilization levels would return to average levels observed (2018 and 2019), with peak activity levels and pricing returning in the final year (2020). The Company anticipates that the recovery will be focused towards the CGU's with the most technically advanced equipment. Therefore the Company anticipated that the triples and doubles would return to above 85.0% of the prior year levels, with the Singles recovering to less than 35.0% of prior year levels.

As at December 31, 2015, all forecasted cash flows supported existing fixed assets such that any reasonable change in the key assumptions used at that time would not result in additional impairment to goodwill or property and equipment. As of December 31, 2015, Trinidad had the following recoverable amounts in each of the following CGU's:

Canadian singles	\$30.8 million	US and international singles	\$ 3.2 million
Canadian doubles	\$443.5 million	US and international doubles	\$155.7 million

In the third quarter of 2015, Trinidad reviewed the marketability of rig assets included in the barge drilling operations. Based on existing market conditions and lack of operations in the foreseeable future, all of the barge rig assets were impaired to nil value resulting in an impairment expense of \$26.9 million.

At December 31, 2014, Trinidad reviewed its rig fleet based on the marketability of existing assets and identified certain assets that were no longer competitive. Additionally, it was determined that it was not economical to upgrade these assets to a higher rig class. Based on this analysis, Trinidad's management decided to dispose of each of the rigs identified for scrap value. For the year ended December 31, 2014, the Canadian operations recorded an impairment of \$33.9 million and the US and international operations recorded an impairment of \$43.6 million.

9. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill as at and for the period ended December 31, 2015, and December 31, 2014, are as follows:

(\$ thousands)	Patents	Customer relationships	Engineering and Design	Goodwill	Total
Cost					
Balance as at January 1, 2014	3,000	—	—	149,035	152,035
Effect of foreign exchange	—	—	—	8,212	8,212
Balance as at December 31, 2014	3,000	—	—	157,247	160,247
Acquired	—	900	—	32,302	33,202
Internally developed	—	—	1,082	—	1,082
Effect of foreign exchange	—	—	—	15,859	15,859
Balance as at December 31, 2015	3,000	900	1,082	205,408	210,390
Accumulated amortization and impairment					
Balance as at January 1, 2014	1,784	—	—	58,522	60,306
Amortization	263	—	—	—	263
Balance as at December 31, 2014	2,047	—	—	58,522	60,569
Amortization	953	176	78	—	1,207
Impairment loss	—	—	—	111,847	111,847
Effect of foreign exchange	—	—	—	1,719	1,719
Balance as at December 31, 2015	3,000	176	78	172,088	175,342
Net book value					
December 31, 2015	—	724	1,004	33,320	35,048
December 31, 2014	953	—	—	98,725	99,678
Remaining useful life					
December 31, 2015 (years)	—	1.61	4.64	n/a	

Intangibles

- **Patents** - consist of patent applications for a number of drilling rig component parts that were acquired in a previous business combination and are included in the Canadian operations.
- **Customer relationships** - consist of customer relationships acquired from the CanElsion acquisition.
- **Engineering and Design** - consist of costs related to work completed on standardized engineering and design drawings for new rig builds.

Goodwill

Goodwill is a result of a number of business combinations and is generally attributable to anticipated synergies expected from those acquisitions. Goodwill by definition has no useful life; and therefore, is not amortized.

However, goodwill is subject to impairment tests at least annually. For purposes of impairment testing, Trinidad assesses goodwill at the operating segment level.

At December 31, 2015, in response to further deterioration of industry conditions in the fourth quarter of 2015, the Company determined that there were indications of impairment present. An impairment test was performed on the Canadian and US and International operating segment at December 31, 2015, and the recoverable amounts exceeded its carrying value such that any reasonable change in the key assumptions used in determining value in use would not result in an impairment.

The impairment analysis was completed by comparing the total estimated future cash flows to the net book value at December 31, 2015. The recoverable amounts of all cash generating units (CGUs) was based on its value in use and was determined by estimating the future cash flows that would be generated from the continuing operations of the relevant CGUs, incorporating the following assumptions:

1. A weighted average pre-tax discount rate of 14.6% to 13.1% (2014 - 15.0%) which considered the industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels.
2. Five year forecasted cash flows, taking into consideration current industry conditions, actual 2015 operating results and past experience. (2014 - Cash flows were projected based on past experience, actual 2014 operating results, the 2015 forecast and the current industry conditions).
3. A terminal value was used assuming no annual growth rate for cash flows through the remainder of the segment's life (2014 - The weighted average operating profit was projected to be 43.1% of revenue throughout the forecast period with minimal differences year over year as much of the US rig fleet, particularly the high-technology triple rigs, were under long-term rig contracts with contracted dayrates. The forecast of operating results had been done so using the contracted dayrates and utilization levels with the remainder of the fleet being reflected at the expected industry activity).

For the year ended December 31, 2015, the increase in goodwill is comprised of \$32.3 million (\$18.9 million in the Canadian segment and \$13.4 million in the US and International segment) recorded from the acquisition of CanElson as well as changes in the foreign exchange rate during the year as amounts held in the US and International operations are revalued. (December 2014 - increase due to foreign exchange \$8.2 million).

The recoverable amounts of the Canadian and US and International segment exceeded its carrying value at December 31, 2015 and 2014. However, at September 30, 2015, in response to existing industry conditions in the third quarter of 2015, the Company determined that there were indications of impairment present. At September 30, 2015, the company completed an assessment and recognized an impairment loss of \$111.8 million on the goodwill associated with its US and International segment. These goodwill assets were originally generated on the acquisitions of Cheyenne Drilling and the barge drilling operations.

10. INVESTMENT IN JOINT VENTURES

Joint Ventures Loss (Gain) Reconciliation

For the year ended (\$ thousands)	December 31, 2015	December 31, 2014
Trinidad Drilling International loss (gain) from investment	10,149	(19)
Trinidad Drilling International fair value adjustment	(7,517)	—
Diavez CanElson de Mexico, S.A. de C.V. loss (gain) from investment	(1,102)	—
Loss (gain) from investment in joint ventures	1,530	(19)

Joint Venture - Trinidad Drilling International

Effective September 3, 2013, Trinidad entered into a joint venture arrangement with Halliburton to operate drilling rigs for international projects outside of Canada and the United States. The joint venture currently has operations in Saudi Arabia and Mexico and is exploring future growth opportunities in other international markets. The joint venture is conducting business under the name Trinidad Drilling International (TDI) through separately incorporated companies. Trinidad owns 60% of the shares of TDI and each of the joint parties have equal voting rights. The investment is held through common shares and mandatorily redeemable preferred shares classified as liabilities. Trinidad considers the investment to be a financial asset at fair value through profit or loss and recognizes changes in fair value of the investment in the statement of operations as a gain (loss) from investment in joint venture.

The joint shareholders agreement for TDI was signed by each of the participating parties effective September 3, 2013 with drilling operations commencing in the second quarter of 2014.

Continuity of Investment in TDI Joint Venture for Trinidad

Total Investment (\$ thousands)	Year ended December 31, 2015	Year ended December 31, 2014
Opening Balance	163,958	7,869
Increase in joint venture investment	66,764	161,974
(Loss) gain from investment in joint venture	(10,149)	19
Change in loan to joint venture	26,330	8,453
Elimination of downstream transactions	(3,444)	(24,718)
Fair value adjustment	7,517	—
Effect of foreign exchange	43,535	10,361
Balance as at December 31, 2015	294,511	163,958

Determination of functional currency. Management reviewed the primary factors under IAS 21 – The Effects of Changes in Foreign Exchange Rates, in order to determine the functional currency of TDI, including the country whose competitive forces and regulations determine the sales price and the currency that influences sales prices and costs related to labor and materials. As all rig contracts are negotiated and settled in US dollars, and the majority of expenses are quoted and paid in US dollars (including lease expenses and most capital costs), the functional currency for TDI was determined to be the US dollar for each of the subsidiaries, including those with drilling operations which would include Saudi Arabia and Mexico.

Translation gains and losses resulting from the translation of the Company's investment into the Canadian dollar are for presentation purposes only and are included in equity as accumulated other comprehensive income. Trinidad records its portion of income in US dollars; therefore, this amount is calculated with no related translation adjustment.

Summarized financial information for Trinidad Drilling International

Summarized statement of operations and comprehensive income for Trinidad Drilling International:

For the years ended December 31,
(\$ thousands)

	2015		2014	
	TDI	Trinidad 60% Share	TDI	Trinidad 60% Share
Revenue				
Oilfield service revenue	136,731	82,039	42,428	25,457
Other revenue	333	200	87	52
	137,064	82,239	42,515	25,509
Expenses				
Operating expenses	78,005	46,803	26,149	15,690
General and administrative	14,021	8,413	13,414	8,048
Depreciation and amortization	25,613	15,368	4,860	2,916
Foreign exchange	2,085	1,251	418	251
Finance costs	823	494	56	34
Loss on sale of property and equipment	655	393	—	—
Preferred share valuation	27,136	16,282	—	—
Loss before income tax	(11,274)	(6,765)	(2,382)	(1,430)
Current income taxes	5,149	3,089	1,382	829
Deferred income taxes	492	295	(3,796)	(2,278)
Net (loss) income	(16,915)	(10,149)	32	19

Summarized statement of financial position for Trinidad Drilling International:

Amounts are presented at 100% of the value included in the statement of financial position for Trinidad Drilling International.

<u>As at</u> (\$ thousands)	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	69,002	1,260
Accounts receivable	69,662	26,476
Inventory	8,495	1,837
Prepaid expenses	5,760	12,020
	<u>152,919</u>	<u>41,593</u>
Non-current Assets		
Property and equipment	425,329	268,844
Deposits on property and equipment	420	77,352
Deferred income taxes	4,095	3,887
	<u>582,763</u>	<u>391,676</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	30,929	77,255
Preferred shares	476,194	271,405
	<u>507,123</u>	<u>348,660</u>
Notes payable to joint venture partners	59,662	14,210
	<u>566,785</u>	<u>362,870</u>
Shareholders' Equity		
Common shares	29,484	13,225
Accumulated other comprehensive income	4,473	16,819
Deficit	(17,979)	(1,238)
	<u>15,978</u>	<u>28,806</u>
	<u>582,763</u>	<u>391,676</u>

Commitments

TDI has entered into several operating lease agreements that are included in general and administrative expenses. TDI does not have any contingent rental or sublease agreements, nor any sublease income, and there are no significant renewal or purchase options. These leases expire at various times through 2017. Of these leases, \$0.8 million is due in less than one year, and less than \$0.1 million is due in one to three years.

Related party transactions

The related party transaction exchange amounts are determined depending on the nature of the transaction, and negotiations by both parties. They generally fall into three categories: shared services, newly built equipment and sale of existing equipment.

- Shared services - TDI, and the shareholders of TDI, signed a shared services agreement that outlines the costs that will be reimbursed and the rates based on an employee time allocation assessment.

- Newly built equipment - Trinidad's manufacturing division will quote a cost to complete the build based on requested rig specifications. The relevant overhead allocation and markup are applied based on the original Shareholders Agreement signed between Halliburton and Trinidad.
- Sale of pre-existing equipment - this equipment is sold as a gain/loss on sale to the Company based on third party valuations (such as the three rigs sold from Trinidad's US Drilling Operations).

During the year ended December 31, 2015, Trinidad charged TDI general and administrative expenses of \$3.2 million (2014 - \$3.6 million). Additionally, as of December 31, 2015, TDI had an outstanding trade payable to Trinidad of \$0.8 million (December 31, 2014 - \$3.9 million) related to general and administrative expenses. Furthermore, as of December 31, 2015, TDI had no deposits made on future rig purchases included in property and equipment (December 31, 2014 - \$77.4 million).

The joint shareholders of TDI have loaned funds, via promissory notes, to fund the importation of drilling rigs into Mexico. The funds are recoverable through operations in TDI within three years and earn interest at LIBOR + 2.5%. Trinidad's share of the loan, which matures in November 2017, is US\$15.4 million.

The joint shareholders of TDI have loaned funds, via promissory notes, to fund the importation of drilling rigs into Saudi. The funds are recoverable through operations in TDI within five years and earn interest at 4.25%. Trinidad's share of the loan, which matures in December 2020, is US\$12.0 million.

Fair Value of Investment

At December 31, 2015, in order to assess the fair value of the investment in joint ventures asset held on the consolidated statements of financial position, Trinidad compared the discounted future cash flows to the net book value of this asset at the period end date. As of December 31, 2015, it was determined that the fair value of the investment exceeded the net book value. As such, an adjustment of \$7.5 million was recorded at December 31, 2015. Due to the early operations of the joint venture in the prior year, the fair value of the investment was deemed to be the net investment value; as such, no adjustment was required for December 31, 2014.

Joint Venture - Diavaz CanElson de Mexico, S.A. de C.V.

Effective August 11, 2015, through the CanElson acquisition, Trinidad entered into a joint venture arrangement with D&S Petroleum, S.A. de C.V. to operate drilling and service rigs in Mexico. The joint venture conducts business under the name Diavaz CanElson de Mexico, S.A. de C.V. (DCM) through a separately incorporated company. Trinidad owns 50% of the shares of DCM and each of the joint parties have equal voting rights. The joint venture partners have joint control over the relevant activities of the joint venture and as such DCM is accounted for in these consolidated financial statements using the equity method of accounting.

Continuity of Investment in DCM Joint Venture for Trinidad

Total Investment (\$ thousands)	Year ended December 31, 2015
Balance as at December 31, 2014	—
Acquired investment	—
Gain (loss) from investment in joint venture	1,102
Effect of foreign exchange	45
Balance as at December 31, 2015	1,147

Summarized financial information for Diavaz CanElson de Mexico, S.A. de C.V.

The functional currency of Trinidad's investment in DCM is the US dollar. Translation gains and losses resulting from the translation of the Company's investment into the Canadian dollar are for presentation purposes only and are included in equity as accumulated other comprehensive income. Trinidad records its portion of income in US dollars; therefore, this amount is calculated with no related translation adjustment.

Summarized statement of operations and comprehensive income for DCM:

For the period August 11, 2015 to December 31, 2015 (\$ thousands)	2015	
	DCM	Trinidad 50% Share
Revenue		
Oilfield service revenue	4,811	2,406
	4,811	2,406
Expenses		
Operating expenses	3,193	1,596
General and administrative	227	114
Depreciation and amortization	1,495	748
Foreign exchange	(184)	(92)
Finance costs	271	136
Loss on sale of property and equipment	(32)	(16)
(Loss) before income tax	(159)	(80)
Current income taxes	2,794	1,397
Deferred income taxes	(5,158)	(2,579)
Net income (loss)	2,205	1,102

Summarized statement of financial position for DCM:

Amounts are presented at 100% of the value included in the statement of financial position for DCM.

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2015</u>
Assets	
Current Assets	
Cash and cash equivalents	1,677
Accounts receivable	18,880
Inventory	786
Prepaid expenses	434
	<u>21,777</u>
Non-current Assets	
Property and equipment	12,385
Deferred income taxes	638
	<u>34,800</u>
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	5,445
	<u>5,445</u>
Notes payable to joint venture partners	10,098
	<u>15,543</u>
Shareholders' Equity	
Common shares	3,920
Accumulated other comprehensive income	496
Retained earnings	14,841
	<u>19,257</u>
	<u>34,800</u>

Commitments

DCM has entered into several operating lease agreements that are included in general and administrative expenses. DCM does not have any contingent rental or sublease agreements, nor any sublease income, and there are no significant renewal or purchase options. These leases expire at various times through 2017. Of these leases, \$4.6 million is due in less than one year, and \$1.1 million is due in one to three years.

Credit risk

At December 31, 2015, DCM had accounts receivable of \$18.9 million. This balance has been valued using a 12.0% discount factor and assuming a two year collection period. This balance is due primarily from two customers. Subsequent to December 31, 2015, no outstanding receivables were collected.

11. LONG-TERM DEBT

As at (\$ thousands)	December 31, 2015	December 31, 2014
Limited Partnership Loans ^{(1) (c)}	2,609	—
2019 Notes ^(a)	620,661	519,759
Credit Facility ^(b)	89,873	15,000
	710,534	534,759
Less: unamortized debt issue costs	(6,223)	(6,951)
	704,311	527,808

(1) The Limited Partnership Loans are included as current portion of long-term debt on the consolidated statements of financial position as the balance is fully callable.

- a) On December 16, 2010, Trinidad issued US\$450.0 million of 7.875% senior unsecured notes (Senior Notes) for gross proceeds of US\$446.7 million. The Canadian dollar equivalency on this date was \$449.1 million. Interest is payable semi-annually in arrears on January 15 and July 15, and the Senior Notes are due in January 2019. On or after January 15, 2015, Trinidad has the option to redeem all or a portion of the Senior Notes at set redemption prices, which include principal amount plus a penalty fee, plus any accrued and unpaid interest to the applicable redemption date.

The discount on the Senior Notes is being accreted such that the liability at maturity will equal the face value of US\$450.0 million and deferred financing charges of \$11.7 million are being amortized over the life of the Senior Notes using the effective interest rate method.

The Senior Notes have been designated as a hedge of the net investment in self-sustaining foreign operations. As a result, unrealized foreign exchange gains and losses on the Senior Notes are offset against foreign exchange gains and losses arising from the translation of the accounts of self-sustaining foreign subsidiaries. These losses are included in the cumulative translation account in other comprehensive income.

The Senior Notes are unsecured and have no financial covenant compliance reporting requirements. There are other covenant limitations, including the following: incurring additional debt; investments, including advances to the TDI joint venture; asset sales; and restricted payments. Restricted payments as allowed within a basket, calculated as accumulated net earnings from October 1, 2010 to current at 50% for net income or 100% for net loss, plus equity issued for cash and net fair market value of other restricted assets added for equity. As at December 31, 2015, Trinidad has a significant positive restricted payment basket available.

- b) On December 12, 2014, Trinidad terminated its existing credit facility from 2010 and entered into a new agreement, which was then amended on December 11, 2015. The amended credit facility includes a Canadian revolving facility of \$150 million and a US revolving facility of US\$150 million. Included in the facility are a \$10.0 million Canadian dollar bank overdraft and a \$10.0 million US dollar bank overdraft. The facility requires quarterly interest payments based on Bankers Acceptance and LIBOR rates and incorporates a tiered interest rate which varies depending on the results of a defined financial ratio being Total Debt to Bank EBITDA, which is a non-GAAP measure. The ratio is defined as the consolidated balance of long-term debt, including Senior Debt, Senior Notes payable, and dividends payable less unrestricted cash in excess of \$10.0 million at quarter end, divided by consolidated net earnings, adjusted by interest on long-term debt, depreciation and amortization, income taxes, gain (loss) on sale of property and equipment, unrealized foreign exchange and any other non-cash expenditure or loss. Bank EBITDA excludes all amounts recorded as gain/loss from investment in joint ventures, but does include any distributions received in the period. The facility matures December 12, 2018, and is subject to annual extensions of an additional year on each anniversary date upon consent of the lenders holding two-thirds of the aggregate commitments under the credit facility. The members of the syndicated groups include major Canadian, U.S. and international financial institutions. The debt is secured by a general guarantee over the assets of Trinidad and its subsidiaries.

The Company's syndicated loan facility is subject to three covenants, with increased focus on the Total Debt to Bank EBITDA. Under the credit facility, the Total Debt to Bank EBITDA must be maintained below 4.00:1, except upon completion of a material acquisition, whereby the covenant must be maintained below 4.50:1. Due to the CanElson acquisition, at December 31, 2015, Trinidad must maintain the Total Debt to Bank EBITDA at 4.50:1. Effective December 11, 2015, based on the amended credit facility, this covenant was adjusted to the following:

Total Debt to Bank EBITDA ⁽¹⁾	6.00:1	January 1, 2016 - March 31, 2017
	5.50:1	April 1, 2017 - June 30, 2017
	5.00:1	July 1, 2017 - December 31, 2017
	4.00:1	January 1, 2018 - forward

In addition to the financial covenants, the credit facility contains other covenants with threshold limitations on various day to day events, including on the following: incurring additional debt and liens on assets; investments, including advances to the TDI joint venture; asset sales, repurchase of Senior notes; and making restricted payments. At December 31, 2015, Trinidad is in compliance with all of the covenants of the credit facility.

- c) On August 11, 2015, Trinidad acquired debt due to the CanElson acquisition which includes the following facilities:

Limited partnership loan #1 (LP#1) has an operating loan for the lesser of \$1.0 million or 75% of LP#1's Canadian accounts receivable aged less than 90 days. The operating loan bears interest when funds are drawn at the bank's prime lending rate plus 1.5% and is due on demand. LP#1 also holds a non-revolving loan that bears interest when funds are drawn at the bank's prime lending rate plus 2%. Interest is paid on a monthly basis and unless otherwise demanded by the bank, all amounts shall be paid over an amortization period of 60 months starting January 31, 2013. As of December 31, 2015, LP#1 had \$0.6 million outstanding on the non-revolving loan. For the period commencing December 31, 2015 and ending on September 30, 2016, all financial covenants have been suspended under the requirement that \$0.3 million be paid and applied to the indebtedness under the capital loan. Interest on the capital loan shall continue to accrue at prime lending rate plus 3% per annum, calculated and payable monthly until and including September 30, 2016. This loan is secured by the drilling rig included in the partnership.

Limited partnership loan #3 (LP#3) has an operating loan of the lesser of \$1.0 million or 75% of LP#3's Canadian accounts receivable aged less than 90 days. The operating loan bears interest when funds are drawn at the bank's prime lending rate plus 1.5% and is due on demand. LP#3 also holds a non-revolving loan that bears interest when funds are drawn at the bank's prime lending rate plus 1.75%. Interest is paid on a monthly basis and unless otherwise demanded by the bank, all amounts shall be paid over an amortization period of 72 months starting September 30, 2013. As of December 31, 2015, LP#3 had \$2.0 million outstanding on the non-revolving loan. For the period commencing December 31, 2015 and ending on September 30, 2016, all financial covenants have been suspended. Interest on the capital loan shall continue to accrue at prime lending rate plus 3.75% per annum, calculated and payable monthly until and including September 30, 2016. This loan is secured by the drilling rig included in the partnership.

At December 31, 2015, the Company had outstanding letters of credit of less than \$0.5 million (December 31, 2014 - less than \$0.1 million).

12. INCOME TAXES

The components of tax expense by segment for the years ended 2015 and 2014 were as follows:

For the years ended December 31, (\$ thousands)	2015	2014
Current tax expense		
Canada	686	875
United States and International	2,071	3,682
	2,757	4,557
Deferred tax expense		
Canada	(43,179)	(814)
United States and International	(81,354)	333
	(124,533)	(481)
Total tax (recovery) expense	(121,776)	4,076

Trinidad's income is subject to Canadian federal and provincial taxes, U.S. federal and state taxes, and international federal taxes. For 2015, a \$42.5 million (2014 - \$0.1 million expense) recovery relates to the Company's Canadian entities resulting from operations in Alberta, British Columbia, Saskatchewan and Manitoba, and a \$79.3 million recovery (2014 - \$4.0 million expense) pertains to the Company's U.S. and international operations.

Taxes on items recognized in other comprehensive income or directly in equity in 2015 and 2014 were as follows:

For the years ended December 31, (\$ thousands)	2015	2014
Deferred tax on foreign exchange adjustments on debt	(48,273)	(19,916)

Factors affecting tax expense for the year:

For the years ended December 31, (\$ thousands)	2015	2014
Net earnings before income tax	(340,122)	10,672
Corporate statutory tax rate	26.10%	25.40%
Tax expense at statutory rate	(88,772)	2,711
Non-taxable/non-deductible amounts	916	1,870
Statutory and other rate differences	(33,332)	(2,183)
Effect of change in timing of expected tax rates	(1,912)	950
Return to provision adjustment	(497)	229
Other	1,821	499
Effective income tax rate at 35.80% (2014 at 38.19%)	(121,776)	4,076

The effective tax rate on earnings of 35.8% in 2015 is higher than Canada's statutory tax rate of 26.1% generally due to income which is taxed at rates different than those found in Canada as well as downstream elimination entries which are excluded for tax purposes. Specifically, while the Company generates revenues in numerous jurisdictions, the tax provision on earnings is computed after taking account of intercompany charges and credits among subsidiaries, as a result of their capital structure in addition to the various jurisdictions in which operations, technology and content assets are owned. For these reasons, the effective tax rate differs from the Canadian corporate tax rate. The Company's effective tax rate and its cash tax cost depend on the laws of numerous countries and the provisions of multiple income tax conventions between various countries in which the Company operates.

A 1.0% increase in the effective tax rate would increase the 2015 income tax liability by approximately \$3.4 million.

At December 31, 2015, the consolidated statements of financial position included \$3.0 million of current taxes receivable (December 31, 2014 - nil receivable) within accounts receivable.

The movements of deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are shown below:

Deferred tax (liabilities) (\$ thousands)		Property and equipment and other long lived assets	Financing costs	Total
December 31, 2014		(278,582)		(278,582)
Expense to statement of operations		102,045	(1,000)	101,045
Translation and other		(100,843)	536	(100,307)
December 31, 2015		(277,380)	(464)	(277,844)

Deferred tax assets (\$ thousands)	Losses	Financing costs	Foreign exchange swaps	Share- based payments	Cumulative eligible capital	Other	Total
December 31, 2014	159,731	1,271	19,916	1,542	309	3,644	186,413
(Benefit) expense to statement of operations	28,372	(650)	—	(568)	(21)	(3,644)	23,489
Translation and other	32,966	510	28,357	54	(73)	—	61,814
December 31, 2015	221,069	1,131	48,273	1,028	215	—	271,716

Net deferred tax (liabilities)							
At December 31, 2015							(6,128)
At December 31, 2014							(92,169)

The net deferred tax liability is presented in the Consolidated Statements of Financial Position as follows:

As at December 31, (\$ thousands)	2015	2014
Deferred tax asset	54,367	8,070
Deferred tax liability	(60,495)	(100,239)
Net deferred tax liability	(6,128)	(92,169)

The estimated recovery period for the deferred tax balances is shown below:

As at December 31, (\$ thousands)	2015	2014
Deferred tax (liabilities)		
To be payable after more than 12 months	(277,844)	(277,038)
To be payable within 12 months	—	(1,544)
Total deferred tax (liabilities)	(277,844)	(278,582)
Deferred tax assets		
To be recoverable after more than 12 months	270,399	144,469
To be recoverable within 12 months	1,317	41,944
Total deferred tax assets	271,716	186,413
Total net deferred tax (liability)	(6,128)	(92,169)

Loss carry-forwards of \$668.5 million (2014 - \$474.1 million) have been recognized for income tax purposes. They represent losses mainly located in Canada and the U.S., and are due to expire between 2028 and 2034.

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

The Company has temporary differences in respect of its investments in Canadian and foreign subsidiaries for which no deferred taxes have been recorded. As no taxes are expected to be paid in respect of the temporary differences related to its Canadian subsidiaries, the Company has not determined the amount of those temporary differences. The aggregate amount of temporary differences associated with investments in foreign subsidiaries for which a deferred tax liability has not been recognized is \$341.9 million (2014 - \$426.5 million).

13. NON-CONTROLLING INTEREST

Non-controlling interests arise from business combinations in which Trinidad acquires less than a 100.0 percent interest. Non-controlling interests are initially measured at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable assets. Subsequent to acquisition, the carrying amount of non-controlling interest is increased or decreased by the non-controlling interest's share of subsequent changes in net income, as well as dividends or cash disbursements made to the non-controlling interest. Total comprehensive income is attributed to the non-controlling interests even if the result is the non-controlling interest becoming a debit balance.

The non-controlling interests of Midland C Ranch Holdings, LLC (Midland), CanElson 120601 Drilling Limited Partnership #1 (LP#1), CanElson 120601 Drilling Limited Partnership #2 (LP#2), and CanElson 120601 Drilling Limited Partnership #3 (LP#3) were initially measured at fair value on the date of acquisition.

At December 31, 2015, Trinidad completed a valuation assessment of the non-controlling interest liability whereby the discounted cash-flows were compared to the net book value of the liability in order to ensure the fair value of the non-controlling liability was properly valued for the period end date. As at December 31, 2015, it was determined that the net book value of the non-controlling liability was in line with the fair value such that no adjustment was required. As Trinidad did not have a non-controlling liability as at December 31, 2014, there was no prior year assessment required.

The following table summarizes the information relating to the non-controlling interest:

(\$ thousands)	Total NCI
Balance as at December 31, 2014	—
Acquired investment at August 11, 2015	16,577
Foreign currency translation adjustment	1,217
Comprehensive income attributable to non-controlling interest	654
Change in fair value of liability	—
Balance as at December 31, 2015	18,448

Summarized financial information for non-controlling interests:

Non-controlling interest ownership percentage

As at and for the year ended December 31, 2015
(\$ thousands)

	LP1 50%	LP2 45.6%	LP3 50%	Midland 50%	Total
Current assets	1,447	612	61	1,974	5,520
Non-current assets	4,928	4,757	4,945	22,182	52,840
Current liabilities	1,855	3,100	2,634	—	7,589
Non-current liabilities	—	—	—	—	—

For the period August 11, 2015 to December 31, 2015
(\$ thousands)

Revenue	2,027	1,459	—	2,748	8,328
Net income (loss)	(84)	22	(434)	506	10
Net income (loss) attributable to non-controlling interest	(42)	10	(217)	253	4
Total comprehensive income (loss) attributable to non-controlling interest	(42)	10	(217)	903	654

14. COMMON SHARES

Authorized

Unlimited number of common shares, voting, participating:

For the year ended December 31,
(Number of shares)

	2015	2014
Outstanding - beginning of year	135,157,724	138,123,082
Issued upon exercise of stock options	—	72,702
Issued upon business combination	88,661,926	—
Cancelled upon repurchase under NCIB	(1,732,380)	(3,038,060)
Outstanding - end of year	222,087,270	135,157,724

Holders of common shares are entitled to participate in dividends if and when declared by the Company. During the year ended December 31, 2015 Trinidad declared dividends totaling \$26.7 million at \$0.05 per share for the first, second and third quarters of 2015, and \$0.01 per share for the fourth quarter of 2015 (2014 - \$27.5 million or \$0.05 per share for all four quarters).

On August 11, 2015, Trinidad acquired all of the issued and outstanding shares of CanElson for 1.0631 common shares of Trinidad, or \$4.90 in cash per CanElson share to a maximum consideration of \$50.0 million. As a result of the elections made by CanElson shareholders, Trinidad paid the full \$50.0 million in cash and the remainder of the acquisition consideration in common shares of Trinidad (88,661,926 Trinidad common shares). CanElson was a drilling company that operated land-based contract drilling rigs in Canada, the United States and Mexico.

On November 25, 2014, Trinidad filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid (NCIB) to purchase outstanding shares on the open market. As approved by the TSX, Trinidad was authorized to purchase up to 12,299,009 common shares which represented approximately 10% of Trinidad's common shares outstanding at the time of the bid, during the period of November 27, 2014 to November 26, 2015 or until such time as the bid was completed or terminated at the Company's option. Any shares purchased under the bid were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common shares acquired under the bid were cancelled.

During the year ended December 31, 2015, Trinidad purchased and cancelled 1,732,380 common shares (December 31, 2014 - 3,038,060) for a total consideration of \$8.4 million (December 31, 2014 - \$16.5 million).

15. SHARE-BASED PAYMENTS

Incentive Option Plan

On March 10, 2008, Trinidad established an Option Plan to provide an opportunity for officers, employees and consultants of Trinidad and its affiliates to participate in the growth and development of the Company. Options generally vest on the first, second and third anniversary of the date of grant. They are exercisable for a period of five years from the date of grant. At December 31, 2015, a maximum of 10% of the outstanding common share balance may be used under the Option Plan.

The following summarizes the changes in outstanding options:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number	Weighted average exercise price (CDN\$)	Number	Weighted average exercise price (CDN\$)
Outstanding - beginning of year	850,676	8.21	818,194	8.57
Granted	261,600	5.21	208,200	6.85
Exercised	—	—	(72,702)	8.05
Expired	(124,177)	8.27	(69,482)	8.26
Forfeited	(107,208)	7.89	(33,534)	8.87
Outstanding - end of year	880,891	7.35	850,676	8.21

The range of exercise prices for the options outstanding and exercisable at December 31, 2015 is as follows:

	Total options outstanding			Exercisable options	
	Number	Weighted average exercise price (CDN \$)	Weighted average remaining life (years)	Number	Weighted average exercise price (CDN \$)
\$5.00-\$6.50	253,900	5.21	4.36	—	—
\$6.50-\$7.50	170,500	6.85	3.87	56,265	6.85
\$7.51-\$9.50	289,391	8.07	1.03	289,394	8.07
\$9.51-\$10.00	167,100	9.89	2.96	110,761	9.89
\$12.01-\$14.00	—	—	—	—	—
	880,891	7.35	2.90	456,420	8.36

Trinidad uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. Volatility was determined based on Trinidad's historical daily trading price over the trailing period up to the expected life of the awards. The per share weighted average fair value of options granted during the year ended December 31, 2015 was \$0.70 (December 31, 2014 - \$1.51) which was based on the following assumptions:

For options granted during the years ended December 31,	2015	2014
Share price (CDN \$)	5.21	6.85
Exercise price (CDN \$)	5.21	6.85
Volatility (%)	25.2	36.8
Expected life (years)	3.5	3.5
Dividend yield (%)	2.9	2.9
Forfeiture rate (%)	4.0	3.0
Risk free interest rate (%)	0.8	1.3

For the year ended December 31, 2015, Trinidad recognized share-based payment expense related to outstanding options of \$0.2 million (2014 - expense of \$0.5 million).

Deferred Share Unit Plan

On March 11, 2008, the Company established the Deferred Share Unit (DSU) Plan to provide a compensation system for members of the Board of Directors that is reflective of the responsibility, commitment and risk accompanying Board membership. Each DSU granted permits the holder to receive a cash payment equal to the volume weighted average share price for the five days preceding payment. DSUs vest immediately upon grant but are not exercisable until resignation or termination from the Board of Directors. DSU holders are entitled to share in dividends which are credited as additional DSUs at the dividend record date.

The following summarizes the changes in outstanding DSUs:

For the years ended December 31, (Number of DSUs)	2015	2014
Outstanding - beginning of year	266,791	337,026
New grants	105,843	55,111
Granted through dividend payment	16,150	6,667
Exercised	(35,327)	(131,779)
Forfeited	—	(234)
Outstanding - end of year	353,457	266,791

The total fair value of DSUs at December 31, 2015 was \$0.8 million (December 31, 2014 - \$1.4 million) which represents total DSUs outstanding multiplied by the trailing five day volume weighted average share price of the Company's underlying common shares as the DSUs have no exercise price. The liability is recorded in accounts payable and accrued liabilities in the consolidated statements of financial positions.

For the year ended December 31, 2015, Trinidad recognized a recovery on share-based payment recovery related to the outstanding DSUs of \$0.5 million (2014 - recovery of \$0.5 million).

For the year ended December 31, 2015, 35,327 (2014 - 131,779) deferred share units were exercised as a result of elections by a retiring Director for total proceeds of \$0.2 million (2014 - \$1.4 million). For the year ended December 31, 2015, nil DSU's were forfeited (2014 - 234 DSUs were forfeited).

Performance Share Unit Plan

On March 11, 2008, Trinidad established the Performance Share Unit (PSU) Plan to provide an opportunity for officers and employees of Trinidad to participate in the growth and development of the Company and to promote further alignment of interests between employees and the shareholders. Each PSU granted permits the holder to receive a cash payment equal to the fair value of the volume weighted average share price for the five days preceding payment. The PSUs generally vest on the third anniversary of the grant date, and must be exercised within three years from the grant date. PSU holders are entitled to share in dividends which are credited as additional PSUs at the dividend record date.

The following summarizes the changes in outstanding PSUs:

For the years ended December 31, (Number of PSUs)	2015	2014
Outstanding - beginning of year	1,852,705	1,707,610
New grants	2,182,000	1,135,923
Granted through dividend payment	187,178	55,635
Exercised	(774,357)	(730,198)
Forfeited	(249,073)	(316,265)
Outstanding - end of year	3,198,453	1,852,705

At December 31, 2015, there were no vested PSUs outstanding (December 31, 2014 - nil). Of the PSUs outstanding at December 31, 2015, 1,005,153 vest on December 1, 2016, and 2,193,300 vest on December 1, 2017. The total fair value of PSUs at December 31, 2015 was \$3.1 million (December 31, 2014 - \$4.7 million), which represents total PSUs outstanding multiplied by the trailing five day volume weighted average share price of the Company's underlying common shares as the PSUs have no exercise price. The liability is recorded in accounts payable and accrued liabilities in the consolidated statements of financial positions.

For the year ended December 31, 2015, Trinidad recognized a share-based payment expense related to the outstanding PSUs of less than \$0.1 million (2014 - expense of \$0.7 million).

Stock Appreciation Rights Plan

On November 5, 2013, Trinidad established the Stock Appreciation Rights (SAR) Plan to provide an opportunity for officers and employees of Trinidad to promote further alignment of interests between employees and the shareholders. Each SAR granted permits the holder to receive a cash payment equal to the spread of the closing sales price of the stock and the grant price for all vested SARs. The SARs generally vest a portion on the first, second or third anniversary of the grant date, and must be exercised within ten years from the grant date.

For the years ended December 31, (Number of SARs)	2015	2014
Outstanding - beginning of year	493,662	276,300
New grants	213,100	299,000
Forfeited	(230,846)	(81,638)
Outstanding - end of year	475,916	493,662

During the year ended December 31, 2015, 213,100 SARs were granted with a grant price of \$5.21.

At December 31, 2015, there were 144,936 vested SARs outstanding (December 31, 2014 - 69,333). The total fair value of SARs at December 31, 2015 was nil (December 31, 2014 - nil).

For the year ended December 31, 2015, Trinidad recognized share-based payment expense related to the outstanding SARs of nil (2014 - expense nil).

16. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2015 and 2014, is based on the net earnings attributable to Trinidad shareholders, as reported in the consolidated statements of operations and comprehensive income, and the weighted average number of common shares outstanding in the period.

Diluted earnings per share for the year ended December 31, 2015 and 2014 is based on the net earnings attributable to Trinidad shareholders as reported in the consolidated statements of operations and comprehensive income and basic weighted average number of common shares outstanding, both adjusted for dilutive factors as follows:

For the years ended December 31, (\$ thousands except share data)	2015	2014
Net (loss) earnings attributable to Trinidad common shareholders		
Basic	(218,350)	6,596
Diluted	(218,350)	6,596
Weighted average number of common shares		
Basic	168,227,833	138,033,887
Stock options	—	385,867
Diluted	168,227,833	138,419,754

For the year ended December 31, 2015, no stock options were excluded from the calculation of diluted earnings per share as none were anti-dilutive (2014 - 464,809).

There were no common shares transactions subsequent to December 31, 2015 that would have materially changed the earnings per share calculations had the transactions occurred prior to this date.

17. CAPITAL MANAGEMENT

Trinidad's capital is comprised of debt, Senior Notes and shareholders' equity, less cash and cash equivalents (bank indebtedness). Management regularly monitors total capitalization to ensure flexibility in the pursuit of ongoing initiatives, while ensuring that shareholder returns are being maximized. The overall capitalization of the Company is outlined below:

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Limited Partnership Loans ⁽¹⁾	2,609	—
Long-term debt ⁽²⁾	89,873	15,000
2019 Notes ⁽²⁾	620,661	519,759
Total debt	713,143	534,759
Shareholders' equity	1,319,459	1,135,891
(Cash and cash equivalents)	(63,686)	(71,062)
Total capitalization	1,968,916	1,599,588

(1) Limited Partnership Loans are included in current portion of long-term debt.

(2) Balance outstanding without consideration of debt issue costs.

Management is focused on several objectives while managing the capital structure of the Company. Specifically:

- Ensuring Trinidad has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions and fleet construction programs that add value for its shareholders;
- Maintaining a strong capital base to ensure that investor, creditor and market confidence is secured;
- Maintaining statements of financial position strength, ensuring Trinidad's strategic objectives are met, while retaining an appropriate amount of leverage;
- Providing shareholder return through dividends to ensure that income-oriented investors are provided a cash yield; and
- Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders.

Trinidad manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and Trinidad's planned capital requirements, within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on the existing debt facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt or equity when required.

The Company's syndicated loan facility is subject to three covenants, which are reported to the bank on a quarterly basis. These covenants are used by management to monitor capital, with increased focus on the Total Debt to Bank EBITDA Ratio, which is a non-GAAP measure and defined within the loan facility. This ratio is calculated as the consolidated balance of long-term debt, including Senior Notes, and dividends payable, plus the current portion of long-term debt, less unrestricted cash in excess of \$10.0 million, divided by consolidated net

earnings (loss), adjusted by interest on the long-term debt, depreciation and amortization, income taxes, gain (loss) on sale of property and equipment, unrealized foreign exchange and any other non-cash expenditure or loss for the rolling four quarters, and must be maintained below 4.50:1 for the fourth quarter of 2015. Refer to the long-term debt note (note 11) for details of this covenant. Bank EBITDA excludes all amounts recorded as gain/loss from investment in joint ventures, but does include any distributions received in the period. For the rolling four quarters ended December 31, 2015, this ratio was 3.45 (December 31, 2014 – 1.93:1). Trinidad remains in compliance with all of the banking syndicate’s financial covenants.

18. FINANCIAL INSTRUMENTS

Trinidad’s financial instruments include cash and cash equivalents, accounts receivable, investment in TDI joint venture, accounts payable and accrued liabilities, dividends payable, long-term debt and non-controlling interest. The carrying amounts of these financial instruments, reported on the Company’s consolidated statements of financial positions, approximates their fair values due to their short-term nature, with the exception of the long-term debt as follows:

As at (\$ thousands)	December 31, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets at amortized cost:				
Cash and cash equivalents	63,686	63,686	71,062	71,062
Accounts receivable	113,870	113,870	223,750	223,750
Financial assets at fair value through profit or loss:				
Investment in TDI joint venture	294,511	294,511	163,958	163,958
Financial liabilities measured at amortized cost:				
Accounts payable and accrued liabilities	93,795	93,795	156,003	156,003
Dividends payable	2,221	2,221	6,758	6,758
Limited Partnership Loan	2,609	2,609	—	—
Credit Facility				
Canadian Revolving Credit Facility	64,961	64,961	15,000	15,000
U.S. Revolving Credit Facility	24,912	24,912	—	—
2019 Notes ⁽¹⁾	554,292	620,661	488,112	519,759
Non-controlling interest liability	18,448	18,448	—	—

(1) Senior Notes are recorded at their gross amounts and do not include transaction costs incurred on their issuance.

Trinidad has estimated the fair value amounts using appropriate valuation methodologies and information available to management as of the valuation dates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

- **Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividends payable.** The carrying amounts approximate fair value because of the short maturity of these instruments.
- **Investment in TDI joint venture.** The fair value of the investment reflects amounts that Trinidad has invested into the joint venture with Halliburton (TDI) and the financial performance of the joint venture operations. The investment in joint ventures is a level 3 in the fair value hierarchy. Inputs to the change in the fair value of the investment in joint ventures are disclosed in note 10.
- **Long-term debt and Limited partnership loan.** The fair value of the various pieces of long-term debt (including amounts drawn on credit facilities) is based on the values owed to third-party financial institutions using current market price indicators. Long-term debt is a level 2 in the fair value hierarchy.
- **Senior Notes.** The fair value is based on the closing market price on the date of valuation. Senior Notes are a level 1 in the fair value hierarchy.

- **Non-controlling interest.** The fair value of the non-controlling interest is a level 3 in the fair value hierarchy. Inputs to the change in fair value of the non-controlling interest are disclosed in note 13.

During the years ended December 31, 2015 and 2014, there were no transfers of any financial assets or liabilities between levels.

Financing costs

The carrying value of the Senior Notes is recorded net of debt issuance costs. At December 31, 2015, Trinidad's Canadian and U.S. denominated credit facilities were \$65.0 million and \$24.9 million, respectively (December 31, 2014 - \$15.0 million and nil, respectively). At December 31, 2015, the deferred issuance costs related to these facilities were \$0.7 million on the Canadian facility and US\$0.7 million on the U.S. facility (2014 - \$0.3 million and US\$0.6 million). Trinidad recorded finance costs of \$1.8 million for the year ended December 31, 2015 (2014 - \$1.8 million) relating to amortization of debt issuance costs for all outstanding debt.

Nature and Extent of Risks Arising from Financial Instruments

Trinidad is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, Trinidad is subject to credit risk, liquidity risk, currency risk and interest rate risk.

<u>Financial Instrument</u>	<u>Risks</u>			
	<u>Credit</u>	<u>Liquidity</u>	<u>Market risks</u>	
			<u>Currency</u>	<u>Interest rate</u>
Measured at cost or amortized cost				
Cash and cash equivalents	X		X	X
Accounts receivable	X		X	
Bank indebtedness	X		X	X
Accounts payable and accrued liabilities		X	X	
Dividends payable		X		
Current portion of long-term debt		X		X
Long-term debt		X	X	X
Measured at fair value				
Non-controlling interest	X	X	X	
Investment in joint venture	X	X	X	

Credit risk

Trinidad is exposed to credit risk as a result of extending credit to customers prior to receiving payment for services to be performed, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions and anticipated industry conditions. When a customer does not meet initial credit evaluations, work may be performed subject to a prepayment of services. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and when collectability becomes questionable a provision for doubtful accounts is established.

The following is a reconciliation of the change in the credit risk provision:

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Reserve allowance - beginning year	3,799	3,556
Increase in reserve recorded in the statement of operations in the current period	3,429	738
Write-offs charged against the reserve	(2,486)	(53)
Recoveries of amounts previously written-off	—	(442)
Reserve allowance - end of year	4,742	3,799

As at December 31, 2015, Trinidad had accounts receivable of \$6.9 million that were greater than 90 days for which no provision had been established (December 31, 2014 - \$16.8 million). Of this accounts receivable balance, \$0.3 million relates to accounts receivable from TDI (December 31, 2014 - \$2.7 million). The Company believes that these amounts will be collected.

Liquidity risk

Liquidity risk is the risk that Trinidad will not be able to meet its financial obligations as they become due. The Company actively manages its liquidity through daily, weekly and longer-term cash outlook and debt management strategies. Trinidad's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facility, to ensure all obligations are met as they fall due. To achieve this objective, the Company:

- Maintains cash balances and liquid investments with highly-rated counterparties;
- Limits the maturity of cash balances; and
- Borrows the bulk of its debt needs under committed bank lines or other term financing.

The following maturity analysis shows the remaining contractual maturities for Trinidad's financial liabilities:

<u>As at December 31, 2015</u> <u>(\$ thousands)</u>	<u>Less than</u> <u>1 year</u>	<u>1 - 3 years</u>	<u>4 - 5</u> <u>years</u>	<u>After 5</u> <u>years</u>
Accounts payable and accrued liabilities	93,795	—	—	—
Dividends payable	2,221	—	—	—
Canadian revolving debt	—	64,961	—	—
US revolving debt	—	24,912	—	—
Limited Partnership Loan	2,609	—	—	—
2019 Notes ⁽¹⁾	—	—	622,800	—
Interest payments on contractual obligations	54,357	108,481	4,139	—
Total	152,982	198,354	626,939	—

- (1) The financial liability of the Senior Notes represents the Canadian dollar face value at maturity in January of 2019.

Currency risk

Trinidad's operations are affected by fluctuations in currency exchange rates due to the Company's expansion into the U.S. and international marketplace and reliance on U.S. and international suppliers to deliver components used by its construction subsidiary. The exposure to realized foreign currency fluctuations from its U.S. subsidiaries is mitigated due to the independence of the U.S. and international operations from its Canadian parent for cash flow requirements to satisfy daily operations, creating a natural hedge. However, Trinidad is

exposed to unrealized fluctuations in the gains and losses on consolidation, and US dollar-denominated intercompany balances between the U.S., international and Canadian entities. As at December 31, 2015 and 2014, the Company had in place a net investment hedge on these foreign entities.

As at December 31, 2015 and 2014, portions of Trinidad's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities were denominated in U.S. dollars. In addition, Trinidad's U.S. and international subsidiaries, and Trinidad's investment in the joint venture, including all related joint venture gains and losses, are subject to foreign translation adjustments upon consolidation. Based on these U.S. dollar financial instrument closing balances, net earnings for the year ended December 31, 2015 would have fluctuated by approximately \$0.6 million (2014 - \$0.3 million), and for the year ended December 31, 2015 other comprehensive income would have fluctuated by \$12.4 million (2014 - \$10.7 million), for every \$0.01 variation in the value of the U.S./Canadian exchange rate.

Interest rate risk

Trinidad is exposed to risk related to changes in interest rates on borrowings under the credit facility which is subject to floating interest rates. As at December 31, 2015, Trinidad had \$65.0 million outstanding debt on the Canadian dollar credit facility and \$24.9 million outstanding debt on the U.S. dollar credit facility. As such, a change of one percent in the interest rates would cause a \$0.7 million change in interest costs for the year ended December 31, 2015 (December 31, 2014 - nil).

19. COMMITMENTS AND CONTINGENCIES

Commitments

Trinidad enters into drilling contracts with third parties for use of the Company's drilling equipment. These contracts range from 12 months to five years. As well, Trinidad has several operating lease agreements on buildings and equipment. Operating lease expenses are included in general and administrative expenses in the consolidated statements of operations and comprehensive income. The Company does not have any contingent rental payments. The Company's annual commitments are shown net of sublease income. The leases expire at various times through 2029 and there are no significant renewal or purchase options.

<u>As at December 31, 2015</u> <u>(\$ thousands)</u>	<u>Less than</u> <u>1 year</u>	<u>1 - 3</u> <u>years</u>	<u>4 - 5</u> <u>years</u>	<u>After 5</u> <u>years</u>
Operating leases	4,324	6,945	5,825	20,564

Contingencies

Trinidad is involved in various legal actions which have occurred in the course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these consolidated financial statements.

20. SEGMENTED INFORMATION

The following presents the result of Trinidad's operating segments:

For the year ended December 31, 2015 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Operating revenue	184,431	297,711	102,268	—	—	—	584,410
Other revenue	246	925	5	—	—	—	1,176
Third party recovery	17,387	8,196	—	—	—	—	25,583
General and administrative - third party recovery	—	—	—	—	—	1,273	1,273
Inter-segment revenue	—	—	83,082	—	(83,082)	—	—
Elimination of downstream transactions	—	(319)	(60,224)	—	—	—	(60,543)
	<u>202,064</u>	<u>306,513</u>	<u>125,131</u>	<u>—</u>	<u>(83,082)</u>	<u>1,273</u>	<u>551,899</u>
Operating costs	108,967	153,434	98,857	—	—	—	361,258
Third party costs	17,387	8,196	—	—	—	—	25,583
Inter-segment operating	—	—	83,082	—	(83,082)	—	—
Elimination of downstream transactions	—	—	(57,108)	—	—	—	(57,108)
Operating income	<u>75,710</u>	<u>144,883</u>	<u>300</u>	<u>—</u>	<u>—</u>	<u>1,273</u>	<u>222,166</u>
Depreciation and amortization	47,966	68,037	2,897	—	—	—	118,900
(Gain) loss on sale of assets	1,419	(2,490)	(509)	—	—	—	(1,580)
Elimination of downstream transactions	—	9	—	—	—	—	9
Impairment of capital assets	103,695	101,933	—	—	—	—	205,628
Impairment of goodwill	—	111,847	—	—	—	—	111,847
	<u>153,080</u>	<u>279,336</u>	<u>2,388</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>434,804</u>
Segmented income	(77,370)	(134,453)	(2,088)	—	—	1,273	(212,638)
Loss from investment in joint ventures	—	—	—	1,530	—	—	1,530
General and administrative	—	—	—	—	—	61,658	61,658
General and administrative - third party costs	—	—	—	—	—	1,273	1,273
Foreign exchange	—	—	—	—	—	7,172	7,172
Finance and transaction costs	—	—	—	—	—	55,851	55,851
Income taxes	—	—	—	—	—	(121,776)	(121,776)
Net (loss) earnings	<u>(77,370)</u>	<u>(134,453)</u>	<u>(2,088)</u>	<u>(1,530)</u>	<u>—</u>	<u>(2,904)</u>	<u>(218,346)</u>
Purchase of property and equipment	<u>27,002</u>	<u>112,837</u>	<u>208</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>140,047</u>

- (1) The loss from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

For the year ended December 31, 2014 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter- segment Eliminations	Corporate	Total
Operating revenue	312,871	480,240	184,817	—	—	—	977,928
Other revenue	1,295	475	51	—	—	—	1,821
Third party recovery	39,784	16,574	—	—	—	—	56,358
General and administrative - third party recovery	—	—	—	—	—	1,454	1,454
Inter-segment revenue	—	—	102,870	—	(102,870)	—	—
Elimination of downstream transactions	—	(24)	(96,203)	—	—	—	(96,227)
	<u>353,950</u>	<u>497,265</u>	<u>191,535</u>	<u>—</u>	<u>(102,870)</u>	<u>1,454</u>	<u>941,334</u>
Operating costs	178,209	308,533	172,710	—	—	—	659,452
Third party costs	39,784	16,574	—	—	—	—	56,358
Inter-segment operating	—	—	102,870	—	(102,870)	—	—
Elimination of downstream transactions	—	—	(89,635)	—	—	—	(89,635)
Operating income	<u>135,957</u>	<u>172,158</u>	<u>5,590</u>	<u>—</u>	<u>—</u>	<u>1,454</u>	<u>315,159</u>
Depreciation and amortization	44,603	78,820	1,589	—	—	—	125,012
(Gain) loss on sale of assets	1,928	(28,269)	(23)	—	—	—	(26,364)
Elimination of downstream transactions	—	18,126	—	—	—	—	18,126
Impairment of capital assets	<u>33,869</u>	<u>43,666</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>77,535</u>
	<u>80,400</u>	<u>112,343</u>	<u>1,566</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>194,309</u>
Segmented income	55,557	59,815	4,024	—	—	1,454	120,850
Gain from investment in joint venture	—	—	—	(19)	—	—	(19)
General and administrative	—	—	—	—	—	64,195	64,195
General and administrative - third party costs	—	—	—	—	—	1,454	1,454
Foreign exchange	—	—	—	—	—	5,017	5,017
Finance and transaction costs	—	—	—	—	—	39,531	39,531
Income taxes	—	—	—	—	—	4,076	4,076
Net earnings (loss)	<u>55,557</u>	<u>59,815</u>	<u>4,024</u>	<u>19</u>	<u>—</u>	<u>(112,819)</u>	<u>6,596</u>
Purchase of property and equipment	<u>134,943</u>	<u>141,540</u>	<u>164</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>276,647</u>

(1) The gain from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

As at December 31, 2015 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Property and equipment	642,332	977,108	36,828	—	—	—	1,656,268
Intangible assets and goodwill	19,623	14,421	1,004	—	—	—	35,048
Total assets less deferred tax asset	694,285	973,055	235,441	279,052	—	—	2,181,833
Deferred income tax (asset) liability	(53,752)	58,643	1,237	—	—	—	6,128

As at December 31, 2014 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter- segment Eliminations	Corporate	Total
Property and equipment	539,683	760,575	25,472	—	—	—	1,325,730
Intangible assets and goodwill	—	98,725	953	—	—	—	99,678
Total assets less deferred tax asset	508,002	1,133,525	128,066	163,958	—	—	1,933,551
Deferred income tax (asset) liability	(8,070)	99,180	1,059	—	—	—	92,169

- (1) The gain from investment in joint ventures reflects the Company's share of the financial performance of TDI and DCM during the period. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position.

21. SIGNIFICANT CUSTOMERS

At December 31, 2015, Trinidad had long-term contracts in place with a number of significant oil and natural gas producing companies. For the year-ended December 31, 2015 and 2014, Trinidad had no customers that provided a percentage of total revenue greater than 10%.

22. RELATED PARTY TRANSACTIONS

Trinidad engages the law firm of Blake, Cassels & Graydon LLP to provide legal advice. One partner of this law firm is an officer of the Company. During the year ended December 31, 2015, Trinidad incurred legal fees of \$1.5 million, (2014 - \$1.4 million) to Blake, Cassels & Graydon LLP. At December 31, 2015, less than \$0.1 million was due to Blake, Cassels & Graydon LLP (December 31, 2014 - \$0.2 million).

Trinidad is party to a joint venture arrangement with a wholly-owned subsidiary of Halliburton to operate drilling rigs outside of Canada and the United States through a jointly owned entity. During the year ended December 31, 2015, Trinidad recorded revenue from Halliburton of \$2.1 million, (2014 - \$26.3 million). At December 31, 2015, nil was included in the accounts receivable balance relating to amounts receivable from Halliburton related to rig upgrades and new build costs (December 31, 2014 - \$0.5 million).

Key Management Compensation

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company. Trinidad has identified key management personnel as directors, executive officers and department heads.

The following discloses the amounts recognized as expense during the year related to key management personnel:

For the years ended December 31, (\$ thousands)	2015	2014
Wages and short-term benefits	5,643	5,754
Share -based (recovery) expense	(351)	(344)
	5,292	5,410

The following discloses the number of units in share-based payment plans held by key management personnel:

As at (Number of units)	December 31, 2015	December 31, 2014
Deferred share units	353,457	266,791
Performance share units	1,997,312	1,102,134

Included in the key executive employee contracts are clauses related to amounts received upon a change of control for Trinidad. For the year ended December 31, 2015, if there had been a change of control for Trinidad, the Company would be required to pay \$9.3 million (2014 - \$8.5 million).

Legal Entities

The following is a list of active legal entities through which Trinidad conducts its operations excluding joint venture entities, all are 100% owned:

As at December 31, 2015 Entity	Principal activity	Country of Incorporation
Trinidad Energy Services Income Trust	Holding company	Canada
Trinidad Well Servicing Ltd.	Holding company	Canada
1196899 Alberta ULC	Holding company	Canada
Trinidad Holding Co.	Holding company	United States
Trinidad Drilling USA Ltd.	Land drilling	United States
Trinidad Drilling LP	Land drilling	United States
Trinidad Drilling LLC	Land drilling	United States
Trinidad Design & Manufacturing US, Inc.	Construction	United States
Axxis Drilling Inc.	Land and offshore drilling	United States
Axxis Drilling (Land) Inc.	Land and offshore drilling	United States
Axxis Drilling (Bareboat) Inc.	Barge operations	United States
TDL Luxembourg Ltd.	Holding company	Canada
TDL Financing Luxembourg SARL	Holding company	Luxembourg
Trinidad Luxembourg Ops Sarl	Holding company	Luxembourg
Trinidad Drilling International Ltd.	Holding company	Canada
TDL Mexico SA de CV	Land drilling	Mexico
Trinidad Drilling Services Mexico SA de CV	Labour services	Mexico
TDL Management Services DMCC	Holding company	Dubai
Trinidad South America General Partner Ltd.	Holding company	Canada
Trinidad Drilling South America Limited	Holding company	Canada
Trinidad South American Limited Partnership	Holding company	Canada
Victory Rig Equipment Corporation	Construction	Canada
TDI Bermuda Ltd.	Insurance company	Bermuda
Trinidad Design and Manufacturing FZE	Construction	United Arab Emirates
CanGas Solutions Inc.	CNG & RGT transportation	Canada
CanElson Drilling (US) Inc.	Holding company	United States
CanElson Odessa Drilling, LLC	Land drilling	United States
CanElson Permian Drilling, LLC	Land drilling	United States
CanElson Management, LLC	Land drilling	United States
CanElson Spraberry Drilling, LLC	Land drilling	United States
CanElson Delaware Drilling, LLC	Land drilling	United States
1703090 Alberta Ltd.	Holding company	Canada
1735664 Alberta Ltd.	Holding company	Canada
1737804 Alberta Ltd.	Holding company	Canada

23. EXPENSES BY NATURE

The Company presents certain expenses in the consolidated statements of operations and comprehensive income by function. The following table presents these expenses by nature:

For the years ended December 31, (\$ thousands)	2015	2014
Expenses		
Wages and benefits	182,627	249,447
Materials and supplies	108,321	254,324
Third party costs	25,583	56,358
Repairs and maintenance	46,011	84,728
External services and facilities	29,057	44,748
General and administrative - third party costs	1,273	1,454
Share-based payment expense	(208)	765
	392,664	691,824
Allocated to:		
Operating expense	329,733	626,175
General and administrative	62,931	65,649
	392,664	691,824
Foreign exchange		
Foreign exchange - realized	(743)	437
Foreign exchange - unrealized	7,915	4,580
	7,172	5,017
Finance and transaction costs		
Interest on long-term debt	47,844	37,314
Accretion of 2019 Notes	536	431
Deferred financing costs on long-term debt	1,820	1,786
Transaction costs	5,651	—
	55,851	39,531

24. FOREIGN CURRENCY TRANSLATION

The foreign currency translation adjustment relates to Trinidad's non-Canadian operations that have functional currencies that differ from the Canadian dollar and exchange differences on Trinidad's Senior Notes held in U.S. dollars. When the settlement of a balance is not foreseeable in the near future, foreign exchange gains and losses arising on the translation of intercompany balances are considered part of the net investment in the foreign operation. All amounts will be reclassified to profit or loss when specific conditions are met.

For the years ended December 31, (\$ thousands)	2015	2014
Unrealized gain on translation of foreign operations with functional currency different from Canadian dollar	215,459	90,875
Foreign exchange loss on net investment hedge with U.S. dollar denominated debt, net of tax ⁽¹⁾	(73,982)	(32,809)
Total foreign currency translation adjustment	141,477	58,066

(1) Net of tax for the year ended December 31, 2015 is \$28.4 million (December 31, 2014 \$11.1 million).

25. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

For the years ended December 31, (\$ thousands)	2015	2014
Accounts receivable	151,302	(47,078)
Inventory	26,119	(19,630)
Prepaid expenses	19,932	(10,638)
Accounts payable and accrued liabilities	(74,568)	16,803
Deferred revenue	13,775	(21,428)
	136,560	(81,971)
Pertaining to:		
Operations	107,243	(60,454)
Investing	29,317	(21,517)
	136,560	(81,971)

26. SUBSEQUENT EVENT

Subsequent to December 31, 2015, Trinidad sold the property classified as assets held for sale for total proceeds of \$2.8 million resulting in a gain on sale of property and equipment of less than \$0.1 million.

Effective March 1, 2015, Trinidad's board of directors have voted to suspend any future dividend declaration into the near future in order to conserve cash and improve the Company's financial flexibility. The annualized cash savings are expected to total approximately \$9.0 million per year.



March 4, 2015

Independent Auditor's Report

To the Shareholders of Trinidad Drilling Ltd.

We have audited the accompanying consolidated financial statements of Trinidad Drilling Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes, which comprise 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

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

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (\$ thousands)	Notes	December 31, 2014	December 31, 2013
Assets			
Current Assets			
Cash and cash equivalents	4	71,062	268,160
Accounts receivable		223,750	166,557
Inventory	5	29,618	8,474
Prepaid expenses		19,755	5,557
Assets held for sale	6	—	3,685
		<u>344,185</u>	452,433
Property and equipment	7	1,325,730	1,275,465
Intangible assets and goodwill	8	99,678	91,729
Deferred income taxes	11	8,070	—
Investment in joint venture	9	163,958	7,869
		<u>1,941,621</u>	<u>1,827,496</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		156,003	110,455
Dividends payable		6,758	6,906
Deferred revenue and customer deposits		14,922	31,952
		<u>177,683</u>	149,313
Long-term debt	10	527,808	468,670
Deferred income taxes	11	100,239	95,425
		<u>805,730</u>	713,408
Shareholders' Equity			
Common shares	12	1,093,426	1,117,197
Contributed surplus		59,005	50,607
Accumulated other comprehensive income		62,470	4,404
Deficit		(79,010)	(58,120)
		<u>1,135,891</u>	<u>1,114,088</u>
		<u>1,941,621</u>	<u>1,827,496</u>
Commitments and contingencies	17		

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the years ended December 31,
(\$ thousands)

	Notes	<u>2014</u>	<u>2013</u>
Revenue			
Oilfield service revenue		938,083	844,342
Other revenue		<u>3,251</u>	<u>1,546</u>
		<u>941,334</u>	<u>845,888</u>
Expenses			
Operating expense	21	626,175	516,081
General and administrative	21	65,649	71,004
Depreciation and amortization	7 & 8	125,012	117,067
Foreign exchange	21	5,017	1,342
(Gain) loss on sale of property and equipment	7	(8,238)	1,341
Impairment of property and equipment	7	<u>77,535</u>	<u>131</u>
		<u>891,150</u>	<u>706,966</u>
(Gain) loss from investment in joint venture	9	(19)	768
Finance costs	21	<u>39,531</u>	<u>42,368</u>
Earnings before income taxes		<u>10,672</u>	<u>95,786</u>
Income taxes			
Current	11	4,557	1,077
Deferred	11	<u>(481)</u>	<u>23,757</u>
		<u>4,076</u>	<u>24,834</u>
Net earnings		<u>6,596</u>	<u>70,952</u>
Other comprehensive income			
Foreign currency translation adjustment, net of income tax	22	<u>58,066</u>	<u>38,807</u>
		<u>58,066</u>	<u>38,807</u>
Total comprehensive income		<u>64,662</u>	<u>109,759</u>
Earnings per share			
Net earnings			
Basic	14	0.05	0.58
Diluted	14	0.05	0.58

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31,

(\$ thousands)	Notes	Common shares	Contributed surplus	Accumulated other comprehensive income ⁽¹⁾	(Deficit)	Total equity
Balance at December 31, 2013		1,117,197	50,607	4,404	(58,120)	1,114,088
Exercise of stock options		807	(215)	—	—	592
Shares repurchased through normal course issuer bid	12	(24,578)	8,090	—	—	(16,488)
Share-based payment expense		—	523	—	—	523
Total comprehensive income	22	—	—	58,066	6,596	64,662
Dividends		—	—	—	(27,486)	(27,486)
Balance at December 31, 2014		1,093,426	59,005	62,470	(79,010)	1,135,891
Balance at December 31, 2012		952,043	50,245	(34,403)	(104,036)	863,849
Exercise of stock options		142	(32)	—	—	110
Share-based payment expense		—	394	—	—	394
Total comprehensive income	22	—	—	38,807	70,952	109,759
Dividends		—	—	—	(25,036)	(25,036)
Share issuance proceeds	12	172,500	—	—	—	172,500
Share issuance costs	12	(7,488)	—	—	—	(7,488)
Balance at December 31, 2013		<u>1,117,197</u>	<u>50,607</u>	<u>4,404</u>	<u>(58,120)</u>	<u>1,114,088</u>

(1) Accumulated other comprehensive income consisted of the foreign currency translation adjustment.
All amounts will be reclassified to profit or loss when specific conditions are met.

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,
(\$ thousands)

	Notes	2014	2013
Cash provided by (used in)			
Operating activities			
Net earnings		6,596	70,952
Adjustments for:			
Depreciation and amortization		125,012	117,067
Foreign exchange		5,017	1,342
(Gain) loss on sale of property and equipment		(8,238)	1,341
Impairment of property and equipment		77,535	131
(Gain) loss from investment in joint venture	9	(19)	768
Finance costs		39,531	42,368
Income taxes		4,076	24,834
Interest income		(412)	(100)
Other ⁽¹⁾		7,358	12,410
Income taxes paid		(2,171)	(3,873)
Income taxes recovered		2,254	2,556
Interest paid		(39,978)	(38,761)
Interest received		412	100
Funds provided by operations		216,973	231,135
Change in non-cash operating working capital	23	(60,454)	67,878
Cash provided by operations		156,519	299,013
Investing activities			
Purchase of property and equipment		(276,647)	(90,260)
Proceeds from disposition of property and equipment		137,170	13,467
Investment in joint venture		(170,427)	(8,529)
Change in non-cash working capital	23	(21,517)	(18,467)
Cash used by investing		(331,421)	(103,789)
Financing activities			
Proceeds from long-term debt		15,000	39,257
Repayments of long-term debt		—	(115,241)
Repurchase of shares	12	(16,488)	—
Proceeds from exercise of options		592	110
Dividends paid		(27,634)	(24,172)
Gross proceeds from share issuance		—	172,500
Share issuance costs		—	(7,488)
Finance costs		(954)	(459)
Cash (used) provided by financing		(29,484)	64,507
Cash flow from operating, investing and financing activities		(204,386)	259,731
Effect of translation of foreign currency cash		7,288	3,496
(Decrease) increase in cash for the year		(197,098)	263,227
Cash and cash equivalents - beginning of year		268,160	4,933
Cash and cash equivalents - end of year		71,062	268,160

(1) Other includes share-based payment expense and elimination of downstream transactions in the Manufacturing Operations net earnings.

(See Notes to the Consolidated Financial Statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. STRUCTURE OF THE CORPORATION

Organization

Trinidad Drilling Ltd. (“Trinidad” or the “Company”) is incorporated under the laws of the Province of Alberta, Canada. The Company was formed by way of an arrangement under the Business Corporations Act of Alberta pursuant to an arrangement agreement effective March 10, 2008 between the Company and Trinidad Energy Services Income Trust. Trinidad’s principal place of business is located at 2500, 700 - 9th Avenue SW, Calgary, Alberta.

Operations

Trinidad’s divisions currently operate in the drilling and barge-drilling sectors of the North American oil and natural gas industry, with operations in Canada and the United States (US). Until June 30, 2013, Trinidad’s operations included coring rigs which have subsequently been sold. In addition, through a joint venture agreement signed in the previous year, Trinidad began operating drilling rigs in Saudi Arabia and mobilized drilling rigs to Mexico, and is currently looking into operations in other international markets. Trinidad is a corporation focused on sustainable growth that trades on the Toronto Stock Exchange under the symbol TDG.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable as at December 31, 2014. As part of this preparation, management is required to make estimates and assumptions under IFRS. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent amounts and the reported amounts of revenues and expenses. Actual results could differ from these estimates. Refer to use of judgements and estimates below for further discussion.

These consolidated financial statements were authorized for issuance by the Board of Directors as of March 4, 2015.

Measurement basis

The consolidated financial statements are presented in Canadian dollars, assuming the Company will continue as a going concern for the foreseeable future. The consolidated financial statements are prepared on a historical cost basis except as specifically noted within these notes to the consolidated financial statements.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it earns revenues and incurs expenses, including revenues and expenses from transactions with other Trinidad segments. The Company determines its operating segments based on information that is internally generated and used by the chief operating decision makers within the Company to make determinations about allocation of resources and assessments of performance.

Effective January 1, 2014, Trinidad reviewed the existing operating segments under IAS 8 - Operating segments (IAS 8), in order to better present the Company’s operations based on geographic location and services provided, as well as to review any material changes to Trinidad’s operations. Trinidad noted that per IAS 8, Trinidad’s joint venture operations did not meet the quantitative thresholds required to be separately reportable. However, as

management believes it would be useful for users of the financial statements to have this segment separately disclosed, this information was taken into consideration. Accordingly, Trinidad has identified five operating segments. Prior period segmented information has been reclassified to conform to the current period's presentation.

- Canadian operations - includes land drilling services and coring services.
- US and international operations - includes land and barge drilling services located in both the US and international markets.
- Joint venture operations - includes the international joint venture operation jointly controlled with a wholly owned subsidiary of Halliburton (Halliburton). Trinidad accounts for this using the equity method of accounting.
- Manufacturing operations - includes manufacturing work performed in each of the Canadian and US manufacturing divisions.
- Corporate - includes all non-operating activities and acts as a support function to the other segments.

Use of judgment and estimates

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by Trinidad are believed to be reasonable under current circumstances, actual results could differ.

Significant judgments are used in the application of accounting policies related to the following material amounts recognized in the consolidated financial statements:

- a) ***Determination of functional currency.*** The determination of the functional currency is a matter of determining the primary economic environment in which an entity operates. IAS 21 - The Effects of Changes in Foreign Exchange Rates (IAS 21) sets out a number of factors to apply in making the determination of the functional currency. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies within a subsidiary, Trinidad uses judgment in the ultimate determination of that subsidiary's functional currency. Judgment was applied in the determination of the functional currency of the Company's Mexican operating entity and labour company, whose functional currencies were determined to be the US dollar and Mexican peso, respectively. The functional currency of the Canadian operations was determined to be the Canadian dollar and the US and international operations was determined to be the US dollar. The functional currency of the Manufacturing operations consists of Canadian and US manufacturing divisions whose functional currencies were determined to be Canadian and US dollars, respectively. The functional currency of Trinidad's joint venture operations is the US dollar, including operations in Saudi Arabia and Mexico.
- b) ***Assessment of impairment indicators.*** Trinidad tests impairment of long-lived assets with determinate useful lives when indications of impairment exist. Application of judgment is required in determining whether an impairment test is warranted. For the year ended December 31, 2014, Trinidad recorded an impairment loss of \$77.5 million, (2013 - \$0.1 million).
- c) ***Assessment of equity of the investment in joint venture.*** Trinidad's investment in joint venture is in the form of common shares and preferred shares. Management has used its judgement to conclude that the common shares are nominal and therefore the preferred shares represent the equity of the investment in the joint venture. As such, the changes in the income statement of the joint venture are treated as gain or loss from investment in joint venture utilizing the equity method of accounting.

Trinidad uses significant estimates in the determination of a number of account balances. These estimates have a significant risk of causing a material adjustment to the carrying amounts of the underlying assets and liabilities within the next fiscal year. Material accounts subject to significant estimates are as follows:

- a) **Depreciation of property and equipment.** The Company allocates amounts initially recognized as property and equipment to significant component parts. Significant component parts are depreciated based on estimates of useful lives and residual values. Useful lives and residual values can change as a result of actual usage experience. A change in the useful life or residual value will impact the reported carrying value of the property and equipment resulting in a change in related depreciation expense.
- b) **Income taxes.** Trinidad calculates an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements. In addition, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before the deductions expire.

The assessment is based upon existing tax laws and estimates of future taxable income. Further, there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Trinidad maintains provisions for uncertain tax positions that it believes appropriately reflect its risks with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

Trinidad reviews the adequacy of these provisions at each reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

- c) **Impairments.** Trinidad performs impairment tests on long-lived determinate life assets when impairment indicators exist. In addition, Trinidad tests goodwill for impairment at least annually, regardless of whether impairment indicators exist. An asset or goodwill is impaired and written down only when the impairment test demonstrates that the carrying value is not recoverable. The determination of recoverable amounts on any given asset is subject to significant estimates regarding such issues as timing and magnitude of cash flows and appropriate discount rates.

During the year ended December 31, 2014, Trinidad determined that certain active and decommissioned assets were deemed no longer competitive and were not economical to upgrade. As such management decided to decommission certain rigs and related equipment for scrap value resulting in impairment losses of \$56.7 million (of which \$20.6 million was recognized in the second quarter and \$36.1 million was recognized in the fourth quarter). For the year ended December 31, 2014, management determined that the carrying value of certain assets related to the barge-drilling business in the US and international operations exceeded the recoverable amounts. Trinidad recognized an impairment loss totaling \$20.8 million relating to these assets (note 7). During the year ended December 31, 2013, Trinidad determined that certain coring assets classified as assets held for sale were impaired resulting in an impairment losses of \$0.1 million (note 7).

- d) **Allowance for doubtful accounts.** Trinidad regularly performs a review of outstanding accounts receivable balances greater than 90 days to determine eventual collectability. If an account is deemed uncollectible, a provision for bad debt is recorded. Trinidad also analyzes the provision for bad debt regularly to determine if any of the accounts provided for should be written off. These accounts which are deemed uncollectible could materially change as a result of changes in a customer's financial situation.
- e) **Revenue recognition.** Revenue for contract drilling is only recognized when drilling has occurred and collectability is reasonably assured. If collection is subsequently determined to be in doubt, an allowance is recognized against accounts receivable with a corresponding expense included within general and

administrative expense in the consolidated statements of operations and comprehensive income; revenue is not adjusted.

Trinidad uses the percentage of completion method to account for certain long-term construction contracts in the Manufacturing operations. These contracts represent cost-plus type contracts. Total actual costs are compared to total expected costs to evaluate the percentage completion of the relevant project. This percentage is then applied to the expected revenue of the project. This method of accounting for contracts requires Trinidad to make estimates regarding the total costs of the project, progress against the project schedule and the estimated completion date, all of which impact the amount of revenue and gross margin recognized in each reporting period. Senior management reviews these estimates at each reporting period.

For the year ended December 31, 2014, Trinidad recognized \$85.3 million (2013 - nil) of revenue on outstanding contracts (on a contract-to-date basis) and \$79.1 million (2013 - nil) of costs, resulting in a net margin of \$6.2 million (2013 - nil). At December 31, 2014, Trinidad had customer deposits of \$14.4 million (December 31, 2013 - \$13.1 million) relating to future work to be performed relating to these long-term construction contracts.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of Trinidad and its subsidiaries, all of which are wholly-owned. Any reference to Trinidad throughout these consolidated financial statements refers to Trinidad and its subsidiaries. All intercompany transactions between Trinidad and each of their wholly owned subsidiaries have been eliminated.

Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control and must act together to direct the activities that significantly affect the returns of the arrangement. Under IFRS 11 - Joint arrangement, the Company classifies its interest in joint arrangements as either joint operations or joint ventures. When making this assessment, the Company considers the structure and contractual terms of the arrangement, as well as the legal form of any separate vehicles, in addition to all other relevant facts and circumstances.

Joint operations are recognized on a proportionate consolidation basis by including the Company's share of assets, liabilities, revenues and expenses and other comprehensive income in each of the respective consolidated accounts. Joint ventures are recognized using the equity method of accounting. The Company's share of individual assets and liabilities are recognized as an investment in the joint venture account on the consolidated statements of financial position, and revenues and expenses are recognized with net earnings as a gain/loss from investment in joint venture account on the consolidated statements of operations and comprehensive income.

Effective September 3, 2013, Trinidad entered into a joint arrangement with Halliburton. Trinidad reviewed the legal form and contractual terms of this arrangement. Based on the joint arrangement operating through separately incorporated entities combined with the equal voting shares of each partner, Trinidad concluded that it would be classified as a joint venture. Based on this assessment, Trinidad is accounting for this joint arrangement using the equity method of accounting. Through this accounting, gains and losses resulting from 'upstream' and 'downstream' transactions between The Company and its associate or joint venture are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associate or joint venture. The Company's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at bank and cash in hand, including offsetting bank overdrafts, short-term investments and similar instruments that have a maturity of three months or less at the date of

acquisition. In reporting periods where bank overdrafts exceed cash and cash equivalents, the balance will be referred to as bank indebtedness.

Inventory

Inventory consists of parts, materials and labour related to the construction, recertification, refurbishment and maintenance of rigs and rig-related equipment. Inventory is measured at the lower of average cost or net realizable value.

Inventory cost is based on expenditures incurred to render the goods saleable and includes costs to acquire the parts, direct labour and related overhead. Net realizable value is based on the estimated selling price less cost to complete and sell in the ordinary course of business.

Work-in-process inventory is comprised of assets being constructed for sale externally and long lead items, which the Company may acquire and begin standard rig modifications on prior to having a specific rig construction project identified to minimize construction delays.

Assets held for sale

Non-current assets, and disposal groups, are classified as assets held for sale when the carrying amount is to be recovered principally through a sales transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying value amount and fair value less cost to sell. Assets held for sale are not depreciated.

If an asset classified as an asset held for sale no longer meets the criteria required, whereby the completion of the sale within one year from the classification date is no longer relevant, or the Company has changed their plans of selling the asset at all, the asset is re-classified back to property and equipment. The value of the asset is then adjusted to the lower of either the carrying amount before the asset was classified as an asset held for sale, adjusted for depreciation and any other adjustments that would have taken place, or its recoverable amount at the date of the subsequent decision not to sell.

Property and equipment

Items of property and equipment are recorded at cost less accumulated depreciation and net impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Costs associated with three year mandated major inspections, overhauls and re-certifications are capitalized. However, general repair and maintenance expenditures are expensed as incurred.

The cost of rigs constructed includes cost of materials, direct labour, and construction overhead and any other costs directly attributable in readying the asset for its intended use. Accumulated costs are reported as assets under construction until the related asset is ready for use, at which time it will be subject to depreciation, or is subsequently sold. Advances to suppliers related to rig construction are reported as deposits on property and equipment and transferred to assets under construction as the underlying costs are incurred.

Disposals are removed at cost less accumulated depreciation and net impairment losses with any resulting gain or loss reflected as a separate line item in the consolidated statements of operations and comprehensive income.

When material parts of an item of property and equipment have different useful lives, they are accounted for as separate components. The cost less residual value of a component of property and equipment is depreciated over its estimated useful life as follows:

Rigs and related equipment

Barge			
Hull	9,125 drill days	Unit-of-production	(up to 10% salvage value)
Major inspections	1,500 drill days	Unit-of-production	
Land and barge rigs			
Drawworks, mast and substructure	5,000 drill days	Unit-of-production	(up to 10% salvage value)
Blow out preventer, boilers and top drives	4,200 drill days	Unit-of-production	(up to 10% salvage value)
Building, electrical and mud pumps	3,500 drill days	Unit-of-production	(up to 10% salvage value)
Drill pipe and tubular	1,500 drill days	Unit-of-production	
Recertification	1,000 drill days	Unit-of-production	
Coring and surface casing rigs	up to 15 years	Straight-line	(up to 20% salvage value)
Drilling and coring rig spare equipment	up to 15 years	Straight-line	(up to 10% salvage value)
Drilling rigs (non-core assets)	up to 8 years	Straight-line	(up to 10% salvage value)
Automotive and other equipment			
Crew boats	15 years	Straight-line	
Office furniture and other equipment	5 years	Straight-line	
Automotive equipment	up to 4 years	Straight-line	(up to 10% salvage value)
Other assets			
Buildings	up to 25 years	Straight-line	
Construction equipment	5 to 20 years	Straight-line	

Useful lives and the depreciation methods are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Borrowing costs

Trinidad capitalizes borrowing costs associated with specific and general debt that is directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Intangible assets and goodwill

All intangible assets are carried at cost less accumulated amortization and net impairment losses. The cost of an intangible asset acquired in a business combination is initially measured at fair value at the date of acquisition. Internally generated intangible assets are initially measured at historical cost as expenditures are made starting from the date the expenditures qualify for recognition as an asset.

All intangible assets are amortized over their estimated useful lives as follows:

Acquired in business combinations

Patents	10 years	Straight-line
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Useful lives and the amortization methods are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill arises only in business combinations and represents the excess of the purchase price over the fair values of the net assets acquired. Goodwill is carried at cost less accumulated impairment losses and is not subject to amortization.

Impairment of non-financial assets

Property and equipment and intangible assets with definitive lives are subject to an impairment test whenever there are indications that the carrying amount may not be recoverable. Goodwill is tested for impairment at least annually, on December 31, and more often if circumstances indicate its carrying amount may not be recoverable.

Assets are tested individually unless they do not generate cash inflows that are largely independent of other assets. Where cash inflows are not independent, individual assets are grouped into the smallest group of assets that generates independent cash inflows (Cash Generating Units or “CGU”). The Company’s drilling related CGUs are aggregated by geographic location, based on rig type. The Company’s construction related assets are also aggregated into one CGU. Goodwill is allocated to individual or groups of CGUs that are expected to benefit from the synergies of the business combination, in which the goodwill arose, with the grouping of CGUs being no larger than an operating segment.

The recoverable amount of an asset, CGU or group of CGUs is the greater of its value in use and its fair value less costs of disposal. Trinidad determines fair value less costs of disposal based on the best information available to reflect the amount that could be obtained from the disposal of the asset in an arm’s length transaction between knowledgeable and willing parties, net of estimates of the cost of the disposal. In assessing value in use, the estimated future cash flows of the asset, CGU or group of CGUs are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, CGU or group of CGUs.

An impairment loss is recognized if the carrying amount of an asset, CGU or group of CGUs exceeds its recoverable amount. Where an impairment loss arises on CGUs with allocated goodwill, the loss is allocated first to reduce the carrying amount of the goodwill and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis. Impairment losses are recognized immediately as a separate line item in the consolidated statements of operations and comprehensive income.

A previous impairment, other than an impairment of goodwill, is subsequently assessed for any indications that the impairment is reduced or no longer exists. An impairment loss is reversed if there has been an increase in the recoverable amount of an asset or CGU compared to its current carrying value. Impairment losses are reversed only to the extent that the assets or CGUs carrying amount would not exceed the carrying amount that would have been reported if no impairment loss had been recognized. Impairment losses on goodwill are never reversed.

Income taxes

Income tax expense is comprised of current and deferred tax. Tax is recognized in the consolidated statements of operations and comprehensive income except to the extent that it relates to items recognized in other comprehensive income or equity on the statements of financial position.

Current tax

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to taxation authorities.

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting

period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Income tax estimates

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

Uncertain tax positions

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risks with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Common shares

Common shares are classified as equity. Costs directly attributable to the issue of common shares are recognized as a reduction of equity, net of any tax effects.

Revenue recognition

Revenue for contract drilling and rig construction is only recognized when drilling has occurred and collectability is reasonably assured. If collection is subsequently determined to be in doubt, an allowance is recognized against accounts receivable with a corresponding expense included within general and administrative expense in the consolidated statements of operations and comprehensive income; revenue is not adjusted.

The Company also provides third party manufacturing services, whereby it manufactures drilling related equipment for a fixed price or cost-plus contract. The construction revenue is recognized on a percentage of completion method based upon the total estimated cost in the contract and the costs incurred to date.

Share-based payments

Incentive Option Plan

Compensation expense associated with options granted under the Company's Incentive Option Plan (Option Plan) is deferred and recognized in general and administrative expense over the vesting period of the options. Awards issued under the Option Plan are equity-settled awards, and therefore, the expense is offset to contributed surplus. Trinidad measures the fair value of options at the date of grant using a Black-Scholes option pricing model. For options with graded vesting terms, fair value is determined for each vesting period as if it were a separate award. An estimate of forfeitures is applied to the total options expected to vest which is trued up to actual forfeitures at each vesting date.

Deferred Share Unit Plan

Units issued under the Company's Deferred Share Unit (DSU) long-term incentive plan are measured at fair value when granted and subsequently re-measured at each reporting date. The associated expense is recognized entirely in general and administrative expense as the DSUs vest immediately. DSUs are cash-settled awards, and therefore, the expense is offset to accounts payable and accrued liabilities. Fair value of the DSUs is determined using the volume weighted average of Trinidad's stock price for the five day period preceding the reporting date.

Performance Share Unit Plan

Units issued under the Company's Performance Share Unit (PSU) long-term incentive plan are initially measured based on fair value when granted. The fair value of outstanding units is re-measured at each reporting date. The associated expense is recognized in general and administrative expense over the vesting periods of the PSU. Vesting of the PSUs occurs over a period of time determined at the date of grant and all PSUs are exercisable upon vesting. PSUs are cash-settled awards, and therefore the expense is offset to accounts payable and accrued liabilities. Fair value of the PSUs is determined using the volume weighted average of Trinidad's stock price for the five day period preceding the reporting date.

Stock Appreciation Rights Plan

Units issued under the Company's Stock Appreciation Rights (SAR) long-term incentive plan are initially measured based on the fair value when granted. The fair value of outstanding units is re-measured at each reporting date. The associated expense is recognized in general and administrative expense over the vesting period of the SAR. Vesting of the SARs occurs over a period of time determined at the date of the grant, taking into consideration the separate tranches issued. SARs are cash-settled awards, and therefore the expense is offset to accounts payable and accrued liabilities. Fair value of the SARs is calculated based on the spread of the grant price and Trinidad's closing stock price at the date of valuation.

Earnings per share

Basic earnings per share is computed by dividing net earnings attributable to shareholders by the weighted average number of shares outstanding. Diluted earnings per share amounts are computed by dividing net earnings attributable to shareholders plus interest on any dilutive convertible instruments by the weighted average dilutive shares outstanding. Dilutive shares are determined by taking the weighted average number of shares outstanding and giving effect to the potential dilution that would occur if in-the-money options granted pursuant to the Option Plan were exercised under the treasury stock method and the dilution, if any, that would occur upon the conversion of the convertible instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money options are used to repurchase Trinidad shares at market prices.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the applicable entity at the exchange rate in effect at the time of the transaction. Monetary items are then re-translated into the entity's functional currency at each reporting period at the exchange rates in effect at the statements of financial position date. Non-monetary items are not re-translated. Revenues and expenses denominated in foreign currency are translated at rates in effect at the time of the transactions. Gains and losses on foreign currency transactions are included as a separate line item in the consolidated statements of operations and comprehensive income.

Foreign currency translation

Trinidad's non-Canadian operations have functional currencies that differ from the Canadian dollar, and therefore, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the statements of financial position date and revenues and expenses are translated at the average exchange rates for the relevant period. Translation gains or losses are included in other comprehensive income. When the settlement of an intercompany receivable from or intercompany payable to a foreign operation is neither planned nor likely foreseeable in the future, foreign exchange gains or losses arising on the translation of those intercompany balances is considered a part of the net investment in the foreign operation and are recognized in other comprehensive income.

Financial instruments and hedge accounting

Trinidad's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and long-term debt. The fair value of these financial assets and liabilities approximates their carrying value, unless otherwise noted.

Financial instruments - recognition and measurement

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial asset", "held-to-maturity investment", "loans and receivables", or "financial liabilities measured at amortized cost".

A "financial asset or financial liability at fair value through profit or loss" is classified in this category if it is acquired for the purpose of selling or repurchasing in the short term. The Company currently has no "financial assets or financial liabilities at fair value through profit or loss". Changes in fair value are recognized in financing costs in the consolidated statements of operations and comprehensive income.

The Company currently has no "available-for-sale financial assets", which must be re-measured to fair value at each period and the change in fair value would be recognized in other comprehensive income.

The Company currently has no "held-to-maturity investments". "Held-to-maturity investments" are non-derivative financial assets with fixed or determinable payments and fixed maturities that are intended to be held to maturity. These financial instruments are measured at amortized cost using the effective interest method, less impairment.

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments and are not quoted on the active market and consist of cash and cash equivalents and accounts receivable. "Loans and receivables" are initially recognized at the amount expected to be received and are subsequently measured at amortized cost using the effective interest method, less a specific provision for impairment.

Trinidad's "financial liabilities measured at amortized cost" consist of bank indebtedness, accounts payable and accrued liabilities, dividends payable, and long-term debt. They are recognized at amortized cost, using the effective interest rate method, at each reporting period, net of transaction costs directly attributable to the issuance of the long-term debt. Transaction costs related to the issuance of any long-term debt are netted against the carrying value of the associated long-term debt and amortized as part of financing costs over the life of that debt using the effective interest rate method.

Financial instruments - fair value disclosures

Trinidad discloses its financial instruments within a hierarchy prioritizing the inputs to fair value measurements at the following three levels:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Hedges

Trinidad utilizes derivative financial instruments to manage economic exposure to market risks relating to fluctuations in interest rates on outstanding floating rate debt. The Company formally documents all relationships between hedging instruments and the hedged items, the risk management objective and the method for assessing the effectiveness of the hedge. The effectiveness of the hedge is assessed both at inception of the hedge and throughout its term.

A portion of Trinidad's US dollar-denominated long-term debt has been designated as a hedge of the net investment in self-sustaining foreign operations. As a result, unrealized foreign exchange gains and losses on a portion of the US dollar-denominated long-term debt are offset against foreign exchange gains and losses arising from the translation of the self-sustaining foreign subsidiaries' accounts and are included in the cumulative translation account in other comprehensive income.

Derivative financial instruments are not used for trading or speculative purposes.

Business combinations

Business combinations are accounted for using the acquisition method whereby the total consideration paid by Trinidad, including assets given up, liabilities incurred or assumed, equity instruments issued, and applicable contingent consideration, is allocated to the fair value of the identifiable net assets of the acquired business. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. If total consideration is less than the fair value of the identifiable net assets, the deficiency is reported entirely as a gain in the consolidated statements of operations and comprehensive income.

When a business combination includes a non-controlling interest, the non-controlling interest is initially measured based on either (i) its fair value or (ii) the proportionate share of the fair value of the identifiable net assets acquired. The measurement basis is made on a transaction by transaction basis.

Expenses directly attributable to a business combination, other than any costs associated with the issuance of debt or equity, are expensed as incurred.

New standards adopted

Effective January 1, 2014, Trinidad adopted IFRIC 21 - Levies. This interpretation provides guidance on when to recognize a liability to pay a government levy. IFRIC 21 has been applied retrospectively and does not have a material effect on Trinidad.

New standards not yet adopted

A number of new standards and amendments to existing standards have been issued by the IASB that are effective after December 31, 2014, and therefore, have not been applied to these financial statements. These new standards and amendments and their anticipated impact on Trinidad's consolidated financial statements once they are adopted are as follows:

IFRS 9 - Financial Instruments: IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39 – Financial Instruments – Recognition and Measurement (IAS 39) with a new measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and related dividends which will now limit recognition to fair value through profit or loss or at fair value through other comprehensive income.

Requirements for financial liabilities were also added in October 2010, but largely carried forward existing requirements in IAS 39. With the exception that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

The standard is required to be applied for years beginning on, or after, January 1, 2018. Trinidad is currently assessing the impact of adopting this standard on the consolidated financial statements and consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers: IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to record revenue from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 – Leases or other IFRS standards. Under IFRS 15, revenue is to be recognized to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard is effective for annual periods beginning on or after January 1, 2017, using either a full retrospective approach for all periods presented in the period or a modified retrospective approach. Trinidad is currently evaluating the impact of the new standard.

4. CASH AND CASH EQUIVALENTS

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Cash and cash equivalents	71,062	181,346
Short-term investments	<u>—</u>	<u>86,814</u>
Cash and cash equivalents	<u>71,062</u>	<u>268,160</u>

Cash and cash equivalents are comprised of cash at bank and cash in hand, less cheques in transit, and short-term investments and similar instruments that have a maturity of three months or less at the date of acquisition. All bank accounts are tied to a master netting agreement and as such, are disclosed as a total consolidated balance on the consolidated statements of financial position.

At December 31, 2014, Trinidad had nil (December 31, 2013 - \$86.8 million) invested in short term investments with a maturity of less than 90 days.

Available within Trinidad's credit facility is a \$10.0 million Canadian bank overdraft, and a \$10.0 million US bank overdraft. Trinidad uses the bank overdraft as part of its short-term cash management strategy, to minimize the requirement of carrying cash on hand to cover outstanding cheques and deposits. The bank overdraft is subject to the same terms and conditions as the revolving facility (note 10).

5. INVENTORY

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Parts and materials	<u>7,511</u>	7,195
Work-in-process	<u>22,107</u>	<u>1,279</u>
Total inventory	<u>29,618</u>	<u>8,474</u>

During the year ended December 31, 2014, Trinidad did not recognize an impairment on inventory items (2013 - nil).

The amount of inventory used during the year was \$173.6 million (2013 - \$1.3 million). This amount was recognized as an expense in the consolidated statement of operations and comprehensive income during the year.

6. ASSETS HELD FOR SALE

During the year ended December 31, 2013, Trinidad identified a property included in the Canadian division that was being underutilized and as such determined that the maximum value of this non-current asset would only be realized through a sales transaction. This property was disposed of during the year ended December 31, 2014, for \$3.9 million.

During the year ended December 31, 2014 Trinidad identified a second property included in the U.S. and International division to be classified as held for sale. This property was disposed of during the year for \$2.1 million.

7. PROPERTY AND EQUIPMENT

Property and equipment as at and for the year ended December 31, 2014 and December 31, 2013 are as follows:

(\$ thousands)	Notes	Rigs and related equipment	Automotive and other equipment	Buildings	Construction equipment	Land	Assets under construction	Total
Cost								
Balance as at January 1, 2013		1,802,026	32,245	48,234	3,945	12,579	49,238	1,948,267
Additions/transfers		80,251	1,504	25	42	95	22,412	104,329
Disposals		(39,213)	(13,150)	—	(7)	—	—	(52,370)
Assets held for sale	6	—	—	(2,876)	—	(2,527)	—	(5,403)
Effect of foreign exchange		82,192	734	925	66	89	1,697	85,703
Balance as at December 31, 2013		1,925,256	21,333	46,308	4,046	10,236	73,347	2,080,526
Additions/transfers		141,420	6,294	5,669	24	1,414	142,734	297,555
Disposals		(181,772)	(1,989)	(3,331)	(701)	(578)	—	(188,371)
Effect of foreign exchange		110,537	1,111	1,494	96	196	1,560	114,994
Balance as at December 31, 2014		1,995,441	26,749	50,140	3,465	11,268	217,641	2,304,704
Accumulated depreciation								
Balance as at January 1, 2013		659,996	22,603	9,050	2,697	—	—	694,346
Depreciation		111,496	2,948	1,804	556	—	—	116,804
Impairment loss		131	—	—	—	—	—	131
Disposals		(25,996)	(11,561)	—	(7)	—	—	(37,564)
Assets held for sale	6	—	—	(2,534)	—	—	—	(2,534)
Effect of foreign exchange		33,255	437	139	47	—	—	33,878
Balance as at December 31, 2013		778,882	14,427	8,459	3,293	—	—	805,061
Depreciation		119,544	2,909	2,013	284	—	—	124,750
Impairment loss		77,535	—	—	—	—	—	77,535
Disposals		(78,250)	(1,509)	(790)	(701)	—	—	(81,250)
Effect of foreign exchange		51,891	683	225	79	—	—	52,878
Balance as at December 31, 2014		949,602	16,510	9,907	2,955	—	—	978,974
Net book value								
December 31, 2014		1,045,839	10,239	40,233	510	11,268	217,641	1,325,730
December 31, 2013		1,146,374	6,906	37,849	753	10,236	73,347	1,275,465

Included in property and equipment at December 31, 2014 and December 31, 2013, is \$3.1 million and \$1.0 million, respectively, of capitalized borrowing costs based on a capitalization rate of 8.76% and 11.18%, respectively.

For the year ended December 31, 2014, the disposals mainly related to three upgraded drilling rigs in the US division which were sold to the joint venture. The remainder of disposals related to the sale of non-core assets in the Canadian Drilling division.

For the year ended December 31, 2014, Trinidad reviewed its rig fleet based on the marketability of existing assets. Trinidad identified active and decommissioned assets that were deemed no longer competitive and where

it was not economical to upgrade these rigs to a higher rig class. Based on this analysis, Trinidad's management decided to sell each of the rigs identified for scrap value. Trinidad's management also determined that the carrying value of certain assets related to the barge-drilling business in the U.S. and international operations exceeded the recoverable amounts. For the year ended December 31, 2014, the Canadian operations recorded an impairment of \$33.9 million (\$13.3 million in the second quarter and \$20.6 million in the fourth quarter), and the U.S. and international operations recorded an impairment of \$43.6 million (\$7.3 million in the second quarter and \$15.5 million in the fourth quarter relating to land drilling rigs and \$20.8 million in the fourth quarter relating to barge drilling rigs).

For the year ended December 31, 2013, Trinidad recorded an impairment loss of \$0.1 million related to coring and pre-set rigs included within the Canadian operations that were classified as assets held for sale at June 30, 2013, and disposed of in the third quarter of 2013. As well, Trinidad disposed of certain rig components classified as rigs and related equipment that were being underutilized by the Company. These assets were included in the U.S. and international operations.

8. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill as at and for the year ended December 31, 2014, and December 31, 2013, are as follows:

(\$ thousands)	<u>Patents</u>	<u>Goodwill</u>	<u>Total</u>
Cost			
Balance as at January 1, 2013	3,000	143,188	146,188
Effect of foreign exchange	—	5,847	5,847
Balance as at December 31, 2013	3,000	149,035	152,035
Effect of foreign exchange	—	8,212	8,212
Balance as at December 31, 2014	3,000	157,247	160,247
Accumulated amortization and impairment			
Balance as at January 1, 2013	1,521	58,522	60,043
Amortization	263	—	263
Balance as at December 31, 2013	1,784	58,522	60,306
Amortization	263	—	263
Balance as at December 31, 2014	2,047	58,522	60,569
Net book value			
December 31, 2014	953	98,725	99,678
December 31, 2013	1,216	90,513	91,729
Remaining useful life			
December 31, 2014 (years)	3.63	n/a	n/a

Intangible assets

Patents consist of patent applications for a number of drilling rig component parts that were acquired in a previous business combination and are included in the Canadian operations.

Goodwill

Goodwill is a result of a number of previous business combinations and is generally attributable to anticipated synergies expected from those acquisitions. Goodwill by definition has no useful life, and therefore is not

amortized. However, goodwill is subject to impairment tests at least annually. For purposes of impairment testing, Trinidad assesses goodwill at the operating segment level. As at December 31, 2014, and December 31, 2013, the entire balance included in goodwill was allocated to the US and international operations. The change in the balance as at December 31, 2014, when compared to December 31, 2013, is entirely due to the effects of changes in the foreign exchange rate during the year.

There were indications of impairment at December 31, 2014, and therefore management performed an impairment test of the goodwill assigned to the U.S. and international operations. An impairment test was performed on the U.S. and international operations at December 31, 2014, and the recoverable amount of the U.S. and international operations exceeded its carrying value such that any reasonable change in the key assumptions used in determining value in use would not result in an impairment.

U.S. and International operations

An impairment test was performed on the U.S. and international operating segment at December 31, 2014 and 2013, and no impairment existed (the change in the balance at December 31, 2014 compared to December 31, 2013 is due entirely to the effects of foreign exchange rate changes). The recoverable amount of the US and international CGUs was based on its value in use and was determined by estimating the future cash flows that would be generated from the continuing use of the U.S. and international CGUs, incorporating the following assumptions:

1. A weighted average pre-tax discount rate of 15.0% (2013 - 15.2%) which considered industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels.
2. Cash flows were projected based on past experience, actual 2014 operating results and the 2015 forecast and the current industry conditions (2013 - actual 2013 operating results and the 2014 forecast). A terminal value was used assuming no annual growth rate for cash flows through the remainder of the segment's life.
3. The weighted average operating profit is projected to be 43.1% (2013 - 40.1%) of revenue throughout the forecast period with minimal differences year over year as much of the US rig fleet, particularly the high-technology triple rigs, is under long-term rig contracts with contracted dayrates. The forecast of operating results that has been generated has been done so using the contracted dayrates and utilization levels with the remainder of the fleet being reflected at the expected industry activity.

The recoverable amount of the U.S. and international segment exceeded its carrying value at December 31, 2014 and 2013 such that any reasonable change in the key assumptions used in determining value in use would not result in impairment.

9. INVESTMENT IN JOINT VENTURE

Effective September 3, 2013, Trinidad entered into a joint venture arrangement with Halliburton to operate drilling rigs for international projects outside of Canada and the U.S. The joint venture currently has operations in Saudi Arabia and Mexico and has future growth opportunities in other international markets. The joint venture is conducting business under the name Trinidad Drilling International (TDI) through separately incorporated companies. Trinidad owns 60% of the shares of TDI and each of the joint parties have equal voting rights. The Company accounts for this joint venture using the equity method of accounting.

The joint shareholders agreement for TDI was signed by each of the participating parties effective September 3, 2013. There were no drilling activities included in the operations of TDI during the first quarter of 2014, however, standby revenue was collected. Drilling operations commenced in the second quarter and continued in the third and fourth quarters of 2014.

Continuity of Investment in Joint Venture for Trinidad

(\$ thousands)	Total Investment
Balance as at December 31, 2013	7,869
Increase in joint venture investment	161,974
Gain from investment in joint venture	19
Loan to joint venture	8,453
Elimination of downstream transactions	(24,718)
Effect of foreign exchange	10,361
Balance as at December 31, 2014	163,958

During the year ended December 31, 2014, the joint shareholders of TDI loaned funds, via promissory note with TDI, to fund the importation of drilling rigs into Mexico. The funds are recoverable through operations in TDI within three years and earn interest at LIBOR + 2.5%. Trinidad's share of the loan is for US\$7.5 million which matures in November 2017.

Summarized financial information for Trinidad Drilling International

The functional currency of Trinidad's investment in TDI is the U.S. dollar. Translation gains and losses resulting from the translation of the Company's investment into the Canadian dollar are for presentation purposes only and are included in equity as accumulated other comprehensive income. Trinidad records its portion of equity income in U.S. dollars; therefore, this amount is calculated with no related translation adjustment.

Summarized statement of operations and comprehensive income:

For the year ended December (\$ thousands)	2014		2013	
	TDI	Trinidad 60% Share	TDI	Trinidad 60% Share
Revenue				
Oilfield service revenue	42,515	25,509	—	—
	42,515	25,509	—	—
Expenses				
Operating expenses	26,149	15,690	46	28
General and administrative	13,414	8,048	1,234	740
Depreciation and amortization	4,860	2,916	—	—
Foreign exchange	418	251	—	—
Finance costs	56	34	—	—
Loss before income tax	(2,382)	(1,430)	(1,280)	(768)
Current income taxes	1,382	829	—	—
Deferred income taxes	(3,796)	(2,278)	—	—
Net income (loss)	32	19	(1,280)	(768)

Summarized statement of financial position for Trinidad Drilling International:

Amounts are presented at 100% of the value included in the statement of financial position for Trinidad Drilling International.

As at (\$ thousands)	December 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	1,260	705
Accounts receivable	26,476	—
Inventory	1,837	—
Prepaid expenses	12,020	30
	41,593	735
Non-current Assets		
Property and equipment	268,844	—
Deposits on property and equipment	77,352	13,313
Deferred income taxes	3,887	—
	391,676	14,048
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	77,255	948
Preferred shares	271,405	7,987
	348,660	8,935
Notes payable to joint venture partners	14,210	—
	362,870	8,935
Shareholders' Equity		
Common shares	13,225	6,213
Accumulated other comprehensive income	16,819	180
Deficit	(1,238)	(1,280)
	28,806	5,113
	391,676	14,048

Commitments

As of December 31, 2014, TDI has accepted delivery into its Mexico operations of two new build rigs constructed by Trinidad's manufacturing operations with two remaining rigs expected to be delivered in the first half of 2015.

TDI has entered into several operating lease agreements that are included in general and administrative expenses. TDI does not have any contingent rental or sublease agreements, nor any sublease income, and there are no significant renewal or purchase options. These leases expire at various times through 2017. Of these leases, \$0.8 million is due in less than one year, and \$0.5 million is due in one to three years.

Related party transactions

During the year ended December 31, 2014, TDI incurred general and administrative expenses of \$3.6 million, (2013 - \$2.1 million) to Trinidad. As of December 31, 2014, TDI had an outstanding trade payable to Trinidad of \$3.9 million (December 31, 2013 - \$0.7 million) related to general and administrative expenses. Additionally, as of December 31, 2014, TDI had \$77.4 million included in property and equipment for deposits made on future

rig purchases (December 31, 2013 - \$13.3 million). This amount was paid to Trinidad's manufacturing operations towards the new builds being completed for operations in Saudi Arabia and Mexico.

During the year ended December 31, 2014, TDI purchased three rigs from Trinidad's US drilling division for total proceeds of \$149.8 million and took delivery on three rigs constructed by Trinidad's manufacturing division for total cost of \$124.5 million. The three rigs from the U.S. drilling division have been removed from Trinidad's rig count and included in TDI's rig count as of June 30, 2014.

10. LONG-TERM DEBT

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
2019 Notes ^(a)	519,759	476,107
Credit facility ^(b)	15,000	—
	534,759	476,107
Less : unamortized debt issue costs	(6,951)	(7,437)
	527,808	468,670

- a) On December 16, 2010, Trinidad issued US\$450.0 million of 7.875% senior unsecured notes (Senior Notes) for gross proceeds of US\$446.7 million. The Canadian dollar equivalency on this date was \$449.1 million. Interest is payable semi-annually in arrears on January 15 and July 15, and the Senior Notes are due in January 2019. On or after January 15, 2015, Trinidad has the option to redeem all or a portion of the Senior Notes at set redemption prices, which include principal amount plus a penalty fee, plus any accrued and unpaid interest to the applicable redemption date.
- The discount on the Senior Notes is being accreted such that the liability at maturity will equal the face value of US\$450.0 million and deferred financing charges of \$11.7 million are being amortized over the life of the Senior Notes using the effective interest rate method.
- The Senior Notes have been designated as a hedge of the net investment in self-sustaining foreign operations. As a result, unrealized foreign exchange gains and losses on the Senior Notes are offset against foreign exchange gains and losses arising from the translation of the accounts of self-sustaining foreign subsidiaries. These losses are included in the cumulative translation account in other comprehensive income.
- b) On December 12, 2014, Trinidad terminated its existing credit facility, which included \$200.0 million in Canadian dollars and \$100.0 million in U.S. dollars and entered into a new credit facility agreement that amended and extended the previous facility's terms and included additional commitments under the U.S. dollar denominated revolving facility. The new credit facility includes a Canadian revolving facility of C\$200 million and a U.S. revolving facility of US\$200 million. Included in the facility are a \$10.0 million Canadian dollar bank overdraft and a \$10.0 million U.S. dollar bank overdraft. The facility requires quarterly interest payments based on Bankers Acceptance and LIBOR rates and incorporates a tiered interest rate which varies depending on the results of a defined financial ratio being Consolidated Total Debt to Bank EBITDA, which is a non-GAAP measure. The ratio is defined as the consolidated balance of long-term debt, including Senior Debt, Senior Notes payable and dividends payable less unrestricted cash in excess of C\$10.0 million at quarter end, divided by consolidated net earnings, adjusted by interest on long-term debt, depreciation and amortization, income taxes, gain (loss) on sale of property and equipment, unrealized foreign exchange and any other non-cash expenditure or loss. The facility matures December 12, 2018 and is subject to annual extensions of an additional year on each anniversary date upon consent of the lenders holding two-thirds of the aggregate commitments under the credit facility. The members of the syndicated groups include major Canadian, U.S. and international financial institutions. The debt is secured by a general guarantee over the assets of Trinidad and its subsidiaries.
- The Company's syndicated loan facility is subject to three covenants, with increased focus on the Maximum Consolidated Total Debt to Bank EBITDA which must be maintained below 4.00:1. As of December 31, 2014, Trinidad is in compliance with all of the banking syndicate's financial covenants.

There were no additional expenses on the extinguishment of the former credit facility as all deferred financing charges had been recognized in expense previously in the year. No amounts were withdrawn on the prior facility at the time of extinguishment. Trinidad recorded \$1.0 million of deferred financing charges relating to the new facility which will be amortized over the life of the debt, using the effective interest rate method.

On December 16, 2010, Trinidad entered into a senior secured revolving facility which included \$200.0 million in Canadian dollars and \$100.0 million in U.S. dollars. Included in the facility were a \$10.0 million Canadian dollar bank overdraft and a \$10.0 million U.S. dollar bank overdraft. The facility required quarterly interest payments based on Bankers Acceptance and LIBOR rates and incorporates a tiered interest rate which varies depending on the results of a defined financial ratio being Consolidated Total Debt to Bank EBITDA, which is a non-GAAP measure. This facility was replaced on December 12, 2014, as noted above.

11. INCOME TAXES

The components of tax expense by segment for the years ended 2014 and 2013 were as follows:

For the years ended December 31, (\$ thousands)	December 31, <u>2014</u>	<u>2013</u>
Current tax expense		
Canada	875	(160)
United States and International	3,682	1,237
	4,557	1,077
Deferred tax expense		
Canada	(814)	4,207
United States and International	333	19,550
	(481)	23,757
Total tax expense	4,076	24,834

Trinidad's income is subject to Canadian federal and provincial taxes, U.S. federal and state taxes, and international federal taxes. For 2014, a \$0.06 million (2013 - \$4.0 million) expense relates to the Company's Canadian entities resulting from operations in Alberta, British Columbia, Saskatchewan and Manitoba, and a \$4.0 million expense (2013 - \$20.8 million expense) pertains to the Company's U.S. and international operations.

Taxes on items recognized in other comprehensive income or directly in equity in 2014 and 2013 were as follows:

For the years ended December 31, (\$ thousands)	<u>2014</u>	<u>2013</u>
Deferred tax on foreign exchange adjustments on debt	(19,916)	(8,796)

Factors affecting tax expense for the year:

For the years ended December 31, (\$ thousands)	2014	2013
Net earnings before income tax	10,672	95,786
Corporate statutory tax rate	25.40%	25.45%
Tax expense at statutory rate	2,711	24,378
Non-taxable/non-deductible amounts	1,870	43
Statutory and other rate differences	(2,183)	(3,818)
Effect of change in timing of expected tax rates	950	(84)
Return to provision adjustment	229	3,511
Other	499	804
Effective income tax rate at 38.19% (2013 at 25.92%)	4,076	24,834

The effective tax rate on earnings of 38.19% in 2014 is higher than Canada's statutory tax rate of 25.4% generally due to income which is taxed at rates different than those found in Canada as well as downstream elimination entries which are excluded for tax purposes. Specifically, while the Company generates revenues in numerous jurisdictions, the tax provision on earnings is computed after taking account of intercompany charges and credits among subsidiaries, as a result of their capital structure in addition to the various jurisdictions in which operations, technology and content assets are owned. For these reasons, the effective tax rate differs from the Canadian corporate tax rate. The Company's effective tax rate and its cash tax cost depend on the laws of numerous countries and the provisions of multiple income tax conventions between various countries in which the Company operates.

A 1.0% increase in the effective tax rate would increase the 2014 income tax liability by approximately \$0.1 million.

At December 31, 2014, the consolidated statements of financial position included no current taxes receivable (December 31, 2013 - \$0.7 million receivable) within accounts receivable.

The movements of deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are shown below:

Deferred tax (liabilities) (\$ thousands)	Property and equipment and other long lived assets	Financing costs	Total
December 31, 2013	(311,015)	(75)	(311,090)
Expense to statement of operations	55,367	75	55,442
Translation and other	(22,934)	—	(22,934)
December 31, 2014	(278,582)	—	(278,582)

Deferred tax assets (\$ thousands)	Losses	Financing costs	Foreign exchange swaps	Share- based payments	Cumulative eligible capital	Other	Total
December 31, 2013	200,282	—	8,796	2,993	333	3,261	215,665
(Benefit) expense to statement of operations	(54,890)	1,265	—	(1,445)	(23)	132	(54,961)
Translation and other	14,339	6	11,120	(6)	(1)	251	25,709
December 31, 2014	159,731	1,271	19,916	1,542	309	3,644	186,413
Net deferred tax (liabilities)							
At December 31, 2014							(92,169)
At December 31, 2013							(95,425)

The net deferred tax liability is presented in the Consolidated Statements of Financial Position as follows:

<u>As at December 31,</u> <u>(\$ thousands)</u>	<u>2014</u>	<u>2013</u>
Deferred tax asset	8,070	—
Deferred tax liability	(100,239)	(95,425)
Net deferred tax liability	(92,169)	(95,425)

The estimated recovery period for the deferred tax balances is shown below:

<u>As at December 31,</u> <u>(\$ thousands)</u>	<u>2014</u>	<u>2013</u>
Deferred tax (liabilities)		
To be payable after more than 12 months	(277,038)	(309,029)
To be payable within 12 months	(1,544)	(2,061)
Total deferred tax (liabilities)	(278,582)	(311,090)
Deferred tax assets		
To be recoverable after more than 12 months	144,469	186,773
To be recoverable within 12 months	41,944	28,892
Total deferred tax assets	186,413	215,665
Total net deferred tax (liability)	(92,169)	(95,425)

Loss carry-forwards of \$474.1 million (2013 - \$591.6 million) have been recognized for income tax purposes. They represent losses mainly located in Canada and the U.S., and are due to expire between 2027 and 2033.

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

The Company has temporary differences in respect of its investments in Canadian and foreign subsidiaries for which no deferred taxes have been recorded. As no taxes are expected to be paid in respect of the temporary differences related to its Canadian subsidiaries, the Company has not determined the amount of those temporary differences. The aggregate amount of temporary differences associated with investments in foreign subsidiaries for which a deferred tax liability has not been recognized is \$426.5 million (2013 - \$397.1 million).

12. COMMON SHARES

Authorized

Unlimited number of common shares, voting, participating:

<u>(Number of shares)</u>	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
Outstanding - beginning of year	138,123,082	120,859,476
Issued upon exercise of stock options	72,702	13,606
Issued upon share placement	—	17,250,000
Cancelled upon repurchase under NCIB	(3,038,060)	—
Outstanding - end of year	135,157,724	138,123,082

Holders of common shares are entitled to participate in dividends if and when declared by the Company. During the year ended December 31, 2014 Trinidad declared dividends totaling \$27.5 million or \$0.05 per share per quarter (2013 - \$25.0 million or \$0.05 per share).

On November 25, 2014 Trinidad filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid (NCIB) to purchase outstanding shares on the open market. As approved by the TSX, Trinidad is authorized to purchase up to 12,299,009 common shares which represent approximately 10% of Trinidad's common shares outstanding at time of the bid) during the period of November 27, 2014 to November 26, 2015 or until such time as the bid is completed or terminated at the Company's option. Any shares purchased under the bid are purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common shares acquired under the bid will be cancelled.

During the year ended December 31, 2014, Trinidad purchased and cancelled 3,038,060 common shares (December 31, 2013 – nil) for a total consideration of \$16.5 million (December 31, 2013 - nil).

On December 16, 2013, Trinidad closed a bought deal equity financing whereby 17,250,000 shares were issued for gross proceeds of \$172.5 million. Net proceeds received were \$165.0 million which included share issuance costs of \$7.5 million. This equity financing was primarily entered into to fund Trinidad's international and domestic growth initiatives, as well as the current fleet upgrade program.

13. SHARE-BASED PAYMENTS

Incentive Option Plan

On March 10, 2008, Trinidad established an Option Plan to provide an opportunity for officers, employees and consultants of Trinidad and its affiliates to participate in the growth and development of the Company. Options generally vest on the first, second and third anniversary of the date of grant. They are exercisable for a period of five years from the date of grant. At December 31, 2014, a maximum of 10% of the outstanding common share balance may be used under the Option Plan.

The following summarizes the changes in outstanding options:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Number	Weighted average exercise price (CDN\$)	Number	Weighted average exercise price (CDN\$)
Outstanding - beginning of year	818,194	8.57	1,184,638	9.56
Granted	208,200	6.85	226,600	9.89
Exercised	(72,702)	8.05	(13,606)	8.06
Expired	(69,482)	8.26	(500,165)	11.64
Forfeited	(33,534)	8.87	(79,273)	7.80
Outstanding - end of year	850,676	8.21	818,194	8.57

The range of exercise prices for the options outstanding and exercisable at December 31, 2014 is as follows:

	Total options outstanding			Exercisable options	
	Number	Weighted average exercise price (CDN \$)	Weighted average remaining life (years)	Number	Weighted average exercise price (CDN \$)
\$ 6.50-\$ 7.50	208,200	6.85	4.87	—	—
\$ 7.51-\$ 9.50	433,276	8.06	2.04	294,355	8.18
\$ 9.51-\$ 10.00	209,200	9.89	3.96	69,606	9.89

Trinidad uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. The per share weighted average fair value of options granted during the year ended December 31, 2014 and 2013 were \$1.51 and \$2.73, respectively, which was based on the following assumptions:

<u>For options granted in the year ended December 31,</u>	<u>2014</u>	<u>2013</u>
Share price (CDN \$)	6.85	9.89
Exercise price (CDN \$)	6.85	9.89
Volatility (%)	36.8	42.2
Expected life (years)	3.5	3.5
Dividend yield (%)	2.9	2.0
Forfeiture rate (%)	3.0	3.0
Risk free interest rate (%)	1.3	1.4

Volatility was determined based on Trinidad's historical daily trading price over the trailing period up to the expected life of the awards. For the year ended December 31, 2014, Trinidad recognized share-based payment expense related to outstanding options of \$0.5 million (2013 - expense of \$0.4 million). Share-based payment expense is included in general and administrative expenses in the consolidated statements of operations and comprehensive income.

Deferred Share Unit Plan

On March 11, 2008, the Company established the Deferred Share Unit (DSU) Plan to provide a compensation system for members of the Board of Directors that is reflective of the responsibility, commitment and risk accompanying Board membership. Each DSU granted permits the holder to receive a cash payment equal to the volume weighted average share price for the five days preceding payment. DSUs vest immediately upon grant but are not exercisable until resignation or termination from the Board of Directors. DSU holders are entitled to share in dividends which are credited as additional DSUs at the dividend record date.

The following summarizes the changes in outstanding DSUs:

<u>(Number of DSUs)</u>	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
Outstanding - beginning of year	337,026	242,393
New grants	55,111	87,124
Granted through dividend payment	6,667	7,509
Exercised	(131,779)	—
Forfeited	(234)	—
Outstanding - end of year	266,791	337,026

The total fair value of DSUs at December 31, 2014 was \$1.4 million (December 31, 2013 - \$3.3 million) which represents total DSUs outstanding multiplied by the trailing five day volume weighted average share price of the Company's underlying common shares as the DSUs have no exercise price. The liability is recorded in accounts payable and accrued liabilities in the consolidated statements of financial positions.

For the year ended December 31, 2014, Trinidad recognized share-based compensation recovery related to the outstanding DSUs of \$0.5 million (2013 - expense of \$1.6). Share-based payment expense or recovery is included in general and administrative expense in the consolidated statements of operations and comprehensive income.

For the year ended December 31, 2014, 131,779 deferred share units were exercised as a result of elections by retiring Directors, for total proceeds of \$1.4 million. During the year ended December 31, 2014, 234 units were forfeited.

Performance Share Unit Plan

On March 11, 2008, Trinidad established the Performance Share Unit (PSU) Plan to provide an opportunity for officers and employees of Trinidad to promote further alignment of interests between employees and the shareholders. Each PSU granted permits the holder to receive a cash payment equal to the fair value of the volume weighted average share price for the five days preceding payment. The PSUs generally vest on the third anniversary of the grant date, and must be exercised within three years from the grant date. PSU holders are entitled to share in dividends which are credited as additional PSUs at the dividend record date.

The following summarizes the changes in outstanding PSUs:

<u>(Number of PSUs)</u>	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
Outstanding - beginning of year	1,707,610	1,537,528
New grants	1,135,923	942,253
Granted through dividend payment	55,635	51,663
Exercised	(730,198)	(702,822)
Forfeited	(316,265)	(121,012)
Outstanding - end of year	<u>1,852,705</u>	<u>1,707,610</u>

At December 31, 2014, there were no vested PSUs outstanding (December 31, 2013 - nil). Of the PSUs outstanding at December 31, 2014: 796,090 vest on December 1, 2015 and 1,056,615 vest on December 1, 2016. The total fair value of PSUs at December 31, 2014 was \$4.7 million (December 31, 2013 - \$8.4 million), which represents total PSUs outstanding multiplied by the trailing five day volume weighted average share price of the Company's underlying common shares as the PSUs have no exercise price. The liability is recorded in accounts payable and accrued liabilities in the consolidated statements of financial positions.

For the year ended December 31, 2014, Trinidad recognized share-based payment expense related to the outstanding PSUs of \$0.7 million (2013 – expense of \$10.4 million). Share-based payment expense or recovery is included in general and administrative expense in the consolidated statements of operations and comprehensive income.

Stock Appreciation Rights Plan

On November 5, 2013, Trinidad established the Stock Appreciation Rights (SAR) Plan to provide an opportunity for officers and employees of Trinidad to promote further alignment of interests between employees and the shareholders. Each SAR granted permits the holder to receive a cash payment equal to the spread of the closing sales price of the stock and the grant price for all vested SARs. The SARs generally vest a portion on the first, second or third anniversary of the grant date, and must be exercised within ten years from the grant date.

<u>(Number of SARs)</u>	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
Outstanding - beginning of year	276,300	276,300
New grants	299,000	—
Granted through dividend payment	—	—
Exercised	—	—
Forfeited	(81,638)	—
Outstanding - end of year	<u>493,662</u>	<u>276,300</u>

During the year ended December 31, 2014, 299,000 SARs were granted with an exercise price of \$6.85. At December 31, 2014, there were 69,333 vested SARs outstanding (December 31, 2013 - nil). The total fair value of SARs at December 31, 2014 was nil (December 31, 2013 - nil).

14. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2014 and 2013, is based on the net earnings attributable to shareholders, as reported in the consolidated statements of operations and comprehensive income, and the weighted average number of common shares outstanding in the period.

Diluted earnings per share for the year ended December 31, 2014 and 2013 is based on the net earnings attributable to shareholders as reported in the consolidated statements of operations and comprehensive income and basic weighted average number of common shares outstanding, both adjusted for dilutive factors as follows:

For the years ended December 31, (\$ thousands except share data)	2014	2013
Net earnings attributable to common shareholders		
Basic	6,596	70,952
Diluted	6,596	70,952
Weighted average number of common shares		
Basic	138,033,887	121,619,238
Stock options	385,867	473,597
Diluted	138,419,754	122,092,835

For the year ended December 31, 2014 stock options of 464,809 (2013 – 344,597) were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive.

There were no common shares transactions subsequent to December 31, 2014 that would have materially changed the earnings per share calculations had the transactions occurred prior to this date.

15. CAPITAL MANAGEMENT

Trinidad's capital is comprised of debt, Senior Notes and shareholders' equity, less cash and cash equivalents (bank indebtedness). Management regularly monitors total capitalization to ensure flexibility in the pursuit of ongoing initiatives, while ensuring that shareholder returns are being maximized. The overall capitalization of the Company is outlined below:

As at (\$ thousands)	December 31, 2014	December 31, 2013
Long-term debt ⁽¹⁾	15,000	—
2019 Notes ⁽¹⁾	519,759	476,107
Total debt	534,759	476,107
Shareholders' equity	1,135,891	1,114,088
(Cash and cash equivalents)	(71,062)	(268,160)
Total capitalization	1,599,588	1,322,035

(1) Balance outstanding without consideration of transaction costs.

Management is focused on several objectives while managing the capital structure of the Company. Specifically:

- a) Ensuring Trinidad has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions and fleet construction programs that add value for its shareholders;
- b) Maintaining a strong capital base to ensure that investor, creditor and market confidence is secured;
- c) Maintaining statements of financial position strength, ensuring Trinidad's strategic objectives are met, while retaining an appropriate amount of leverage;
- d) Providing shareholder return through dividends to ensure that income-oriented investors are provided a cash yield; and
- e) Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders.

Trinidad manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and Trinidad's planned capital requirements, within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on the existing debt facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt or equity when required.

The Company's syndicated loan facility is subject to three covenants, which are reported to the bank on a quarterly basis. These covenants are used by management to monitor capital, with increased focus on the Maximum Consolidated Total Debt to Bank EBITDA Ratio, which is a non-GAAP measure and defined within the loan facility. This ratio is calculated as the consolidated balance of long-term debt, including Senior Notes, and dividends payable, plus the current portion of long-term debt, less unrestricted cash in excess of \$10.0 million, divided by consolidated net earnings (loss), adjusted by interest on the long-term debt, depreciation and amortization, income taxes, gain (loss) on sale of property and equipment, unrealized foreign exchange and any other non-cash expenditure or loss for the rolling four quarters, and must be maintained below 4.00:1. For the rolling four quarters ended December 31, 2014, this ratio was 1.93:1 (December 31, 2013 - 1.80:1). Trinidad remains in compliance with all of the banking syndicate's financial covenants.

16. FINANCIAL INSTRUMENTS

Trinidad's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and long-term debt. The carrying amounts of these financial instruments, reported on the Company's consolidated statements of financial positions, approximates their fair values due to their short-term nature, with the exception of the long-term debt as follows:

As at (\$ thousands)	December 31, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Loans and Receivables:				
Cash and cash equivalents	71,062	71,062	268,160	268,160
Accounts receivable	223,750	223,750	166,557	166,557
Financial liabilities measured at amortized cost:				
Accounts payable and accrued liabilities	156,003	156,003	110,455	110,455
Dividends payable	6,758	6,758	6,906	6,906
Credit Facility Canadian Revolving Credit Facility	15,000	15,000	—	—
2019 Notes ⁽¹⁾	488,112	519,759	510,927	476,107

- (1) Senior Notes are recorded at their gross amounts and do not include transaction costs incurred on their issuance.

Trinidad has estimated the fair value amounts using appropriate valuation methodologies and information available to management as of the valuation dates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

- **Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividends payable.** The carrying amounts approximate fair value because of the short maturity of these instruments.
- **Long-term debt.** The fair value of the various pieces of long-term debt (including amounts drawn on credit facilities) is based on the values owed to third-party financial institutions using current market price indicators. Long-term debt is a level 2 in the fair value hierarchy.
- **Senior Notes.** The fair value is based on the closing market price on the date of valuation. Senior Notes are a level 1 in the fair value hierarchy.

Financing costs

The carrying value of the Senior Notes is recorded net of debt issuance costs. At December 31, 2014, Trinidad's Canadian and US denominated credit facilities were \$15 million and nil, respectively. There are deferred issuance costs related to these facilities in the current period of \$0.3 million on the Canadian facility and US\$0.6 million on the US facility. Trinidad recorded finance costs of \$1.8 million for the year ended December 31, 2014 (2013 - \$3.9 million) relating to amortized debt issuance costs under all outstanding debt facilities.

Nature and Extent of Risks Arising from Financial Instruments

Trinidad is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, Trinidad is subject to credit risk, liquidity risk, currency risk and interest rate risk.

<u>Financial Instrument</u>	<u>Risks</u>				
	<u>Credit</u>	<u>Liquidity</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Other price</u>
Measured at cost or amortized cost					
Cash and cash equivalents	X		X	X	
Accounts receivable	X		X		
Bank indebtedness	X		X	X	
Accounts payable and accrued liabilities		X	X		
Dividends payable		X			
Current portion of long-term debt		X		X	
Long-term debt		X	X	X	
Measured at fair value					
Share-based payments					X

Credit risk

Trinidad is exposed to credit risk as a result of extending credit to customers prior to receiving payment for services to be performed, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions and anticipated industry conditions. When a customer does not meet initial credit evaluations, work may be performed subject to a prepayment of services. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and when collectability becomes questionable a provision for doubtful accounts is established.

The following is a reconciliation of the change in the credit risk provision:

<u>As at</u> <u>(\$ thousands)</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Reserve allowance - beginning of year	3,556	2,087
Increase in reserve recorded in the statement of operations in the current period	738	2,030
Write-offs charged against the reserve	(53)	(455)
Recoveries of amounts previously written-off	(442)	(106)
Reserve allowance - end of year	<u>3,799</u>	<u>3,556</u>

As at December 31, 2014, Trinidad had accounts receivable of \$16.8 million (December 31, 2013 - \$11.6 million) that were greater than 90 days for which no provision had been established. Note that of this balance \$2.7 million relates to accounts receivable from TDI. The Company believes that these amounts will be collected.

Liquidity risk

Liquidity risk is the risk that Trinidad will not be able to meet its financial obligations as they become due. The Company actively manages its liquidity through daily, weekly and longer-term cash outlook and debt management strategies. Trinidad's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facility, to ensure all obligations are met as they fall due. To achieve this objective, the Company:

- Maintains cash balances and liquid investments with highly-rated counterparties;
- Limits the maturity of cash balances; and
- Borrows the bulk of its debt needs under committed bank lines or other term financing.

The following maturity analysis shows the remaining contractual maturities for Trinidad's financial liabilities:

<u>As at December 31, 2014</u> <u>(\$ thousands)</u>	<u>Less than</u> <u>1 year</u>	<u>1 - 3</u> <u>years</u>	<u>4 - 5</u> <u>years</u>	<u>After 5</u> <u>years</u>
Accounts payable and accrued liabilities	156,003	—	—	—
Dividends payable	6,758	—	—	—
Canadian revolving debt	—	—	15,000	—
2019 Notes ⁽¹⁾	—	—	522,045	—
Interest payments on contractual obligations	<u>42,414</u>	<u>84,954</u>	<u>45,959</u>	—
Total	<u>205,175</u>	<u>84,954</u>	<u>583,004</u>	—

(1) The financial liability of the Senior Notes represents the Canadian dollar face value at maturity in 2019.

Currency risk

Trinidad's operations are affected by fluctuations in currency exchange rates due to the Company's expansion into the US and international marketplace and reliance on US and international suppliers to deliver components used by its construction subsidiary. The exposure to realized foreign currency fluctuations from its US subsidiaries is mitigated due to the independence of the US and international operations from its Canadian parent for cash flow requirements to satisfy daily operations, creating a natural hedge. However, Trinidad is exposed to unrealized fluctuations in the gains and losses on consolidation, and US dollar-denominated intercompany balances between the US, international and Canadian entities. As at December 31, 2014 and 2013, the Company had in place a net investment hedge on these foreign entities.

As at December 31, 2014 and 2013, portions of Trinidad's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities were denominated in US dollars. In addition, Trinidad's US and international subsidiaries, and Trinidad's investment in the joint venture, including all related joint venture gains and losses, are subject to foreign translation adjustments upon consolidation. Based on these US dollar financial instrument closing balances, net earnings for the year ended December 31, 2014 would have fluctuated by approximately \$0.3 million, (2013 - \$0.8 million), and for the year ended December 31, 2014 other comprehensive income would have fluctuated by \$10.7 million, (2013 - \$9.6 million), for every \$0.01 variation in the value of the US/Canadian exchange rate.

Interest rate risk

Trinidad is exposed to risk related to changes in interest rates on borrowings under the credit facility which is subject to floating interest rates. As at December 31, 2014, Trinidad had \$15 million outstanding debt on the Canadian dollar credit facility and no outstanding debt on the US dollar credit facility. As such a change of one percent in the interest rates would cause a nil change in interest costs for the year ended December 31, 2014 (December 31, 2013 - \$0.2 million).

17. COMMITMENTS AND CONTINGENCIES

Commitments

Trinidad enters into drilling contracts with third parties for use of the Company's drilling equipment. These contracts range from 12 months to five years. As well, Trinidad has several operating lease agreements on buildings and equipment. Operating lease expenses are included in general and administrative expenses in the consolidated statements of operations and comprehensive income. The Company does not have any contingent rental or sublease payments, nor any sublease income. The leases expire at various times through 2029 and there are no significant renewal or purchase options.

<u>As at December 31, 2014</u> <u>(\$ thousands)</u>	<u>Less than</u> <u>1 year</u>	<u>1 - 3</u> <u>years</u>	<u>4 - 5</u> <u>years</u>	<u>After 5</u> <u>years</u>
Operating leases	4,267	5,378	4,693	21,933

Rig Construction

As part of the joint venture arrangement, Trinidad agreed to build four new rigs for the joint venture operations in Mexico which are to be completed by Trinidad's manufacturing operations. The first two of these rigs were mobilized at the end of 2014 and the remaining two are expected to be mobilized in the first half of 2015.

Trinidad expects to deliver a training rig built for its joint venture partner in the first quarter of 2015. Subsequent to December 31, 2014, Trinidad mobilized a rig for a northern Canada liquefied natural gas project. This rig began operations in the first quarter of 2015 and is operating under a five-year, take-or-pay contract.

Trinidad expects to complete three new rig builds under long-term, take-or-pay contracts for its US operations during the first three quarters of 2015. The rigs will be high performance Candrill, 1,500 horsepower, AC rigs with walking systems and 7,500 PSI circulating systems. The Company has agreed with its customer to fulfill two previously announced rig build commitments with rigs from Trinidad's existing fleet.

Contingencies

Trinidad is involved in various legal actions which have occurred in the course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these consolidated financial statements.

18. SEGMENTED INFORMATION

The following presents the result of Trinidad's operating segments:

For the year ended December 31, 2014 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Operating revenue	312,871	480,240	184,817	—	—	—	977,928
Other revenue	1,295	475	51	—	—	—	1,821
Third party recovery	39,784	16,574	—	—	—	—	56,358
General and administrative - third party recovery	—	—	—	—	—	1,454	1,454
Inter-segment revenue	—	—	102,870	—	(102,870)	—	—
Elimination of downstream transactions	—	(24)	(96,203)	—	—	—	(96,227)
	<u>353,950</u>	<u>497,265</u>	<u>191,535</u>	<u>—</u>	<u>(102,870)</u>	<u>1,454</u>	<u>941,334</u>
Operating costs	178,209	308,533	172,710	—	—	—	659,452
Third party costs	39,784	16,574	—	—	—	—	56,358
Inter-segment operating	—	—	102,870	—	(102,870)	—	—
Elimination of downstream transactions	—	—	(89,635)	—	—	—	(89,635)
Operating income	<u>135,957</u>	<u>172,158</u>	<u>5,590</u>	<u>—</u>	<u>—</u>	<u>1,454</u>	<u>315,159</u>
Depreciation and amortization	44,603	78,820	1,589	—	—	—	125,012
Loss (gain) on sale of assets	1,928	(28,269)	(23)	—	—	—	(26,364)
Elimination of downstream transactions	—	18,126	—	—	—	—	18,126
Impairment of capital assets	<u>33,869</u>	<u>43,666</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>77,535</u>
	<u>80,400</u>	<u>112,343</u>	<u>1,566</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>194,309</u>
Segmented income	55,557	59,815	4,024	—	—	1,454	120,850
Gain from investment in joint venture	—	—	—	(19)	—	—	(19)
General and administrative	—	—	—	—	—	64,195	64,195
General and administrative - third party costs	—	—	—	—	—	1,454	1,454
Foreign exchange	—	—	—	—	—	5,017	5,017
Finance costs	—	—	—	—	—	39,531	39,531
Income taxes	—	—	—	—	—	4,076	4,076
Net earnings (loss)	<u>55,557</u>	<u>59,815</u>	<u>4,024</u>	<u>19</u>	<u>—</u>	<u>(112,819)</u>	<u>6,596</u>
Purchase of property and equipment	134,943	141,540	164	—	—	—	276,647

- (1) The joint venture is recorded using the equity method of accounting. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position, and revenues and expenses are recognized with net earnings as income from investment in joint venture on the consolidated statements of operations and comprehensive income. The joint venture was effective September 3, 2013.

For the year ended December 31, 2013 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Operating revenue	297,696	490,375	2,461	—	—	—	790,532
Other revenue	125	594	—	—	—	—	719
Third party recovery	32,246	21,564	—	—	—	—	53,810
General and administrative - third party recovery	—	—	—	—	—	827	827
Inter-segment revenue	—	—	33,014	—	(33,014)	—	—
Elimination of downstream transactions	—	—	—	—	—	—	—
	<u>330,067</u>	<u>512,533</u>	<u>35,475</u>	<u>—</u>	<u>(33,014)</u>	<u>827</u>	<u>845,888</u>
Operating costs	170,934	288,085	3,252	—	—	—	462,271
Third party costs	32,246	21,564	—	—	—	—	53,810
Inter-segment operating	—	—	33,014	—	(33,014)	—	—
Elimination of downstream transactions	—	—	—	—	—	—	—
Operating income (loss)	<u>126,887</u>	<u>202,884</u>	<u>(791)</u>	<u>—</u>	<u>—</u>	<u>827</u>	<u>329,807</u>
Depreciation and amortization	39,496	75,704	1,867	—	—	—	117,067
Loss (gain) on sale of assets	412	936	(7)	—	—	—	1,341
Elimination of downstream transactions	—	—	—	—	—	—	—
Impairment of capital assets	<u>131</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>131</u>
	<u>40,039</u>	<u>76,640</u>	<u>1,860</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>118,539</u>
Segmented income (loss)	86,848	126,244	(2,651)	—	—	827	211,268
Loss from investment in joint venture	—	—	—	768	—	—	768
General and administrative	—	—	—	—	—	70,177	70,177
General and administrative - third party costs	—	—	—	—	—	827	827
Foreign exchange	—	—	—	—	—	1,342	1,342
Finance costs	—	—	—	—	—	42,368	42,368
Income taxes	—	—	—	—	—	24,834	24,834
Net earnings (loss)	<u>86,848</u>	<u>126,244</u>	<u>(2,651)</u>	<u>(768)</u>	<u>—</u>	<u>(138,721)</u>	<u>70,952</u>
Purchase of property and equipment	38,353	50,010	1,897	—	—	—	90,260

- (1) The joint venture is recorded using the equity method of accounting. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position, and revenues and expenses are recognized with net earnings as income from investment in joint venture on the consolidated statements of operations and comprehensive income. The joint venture was effective September 3, 2013.

For the year ended As at December 31, 2014 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Property and equipment	539,683	760,575	25,472	—	—	—	1,325,730
Intangible assets and goodwill	—	98,725	953	—	—	—	99,678
Total assets	508,002	1,133,525	128,066	163,958	—	—	1,933,551
Deferred income taxes (asset) liability	(8,070)	99,180	1,059	—	—	—	92,169

As at December 31, 2013 (\$ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations ⁽¹⁾	Inter-segment Eliminations	Corporate	Total
Property and equipment	434,191	801,777	39,497	—	—	—	1,275,465
Intangible assets and goodwill	—	90,513	1,216	—	—	—	91,729
Total assets	637,922	1,143,036	38,678	7,860	—	—	1,827,496
Deferred income taxes liability	3,335	90,500	1,590	—	—	—	95,425

- (1) The joint venture is recorded using the equity method of accounting. The Company's share of individual assets and liabilities are recognized as an investment on the consolidated statements of financial position, and revenues and expenses are recognized with net earnings as income from investment in joint venture on the consolidated statements of operations and comprehensive income. The joint venture was effective September 3, 2013.

19. SIGNIFICANT CUSTOMERS

At December 31, 2014, Trinidad had long-term, take-or-pay contracts in place with a number of significant oil and natural gas producing companies. For the year-ended December 31, 2014, Trinidad had no customers that provided a percentage of total revenue greater than 10% (2013 - two customers that provided a percentage of total revenue of 14% and 12%).

20. RELATED PARTY TRANSACTIONS

Trinidad engages the law firm of Blake, Cassels & Graydon LLP to provide legal advice. One partner of this law firm is an officer of the Company. During the year ended December 31, 2014, Trinidad incurred legal fees of \$1.4 million (2013 - \$2.2 million) to Blake, Cassels & Graydon LLP. At December 31, 2014, \$0.2 million was due to Blake, Cassels & Graydon LLP (December 31, 2013 - \$0.2 million).

Trinidad had previously engaged Empire Tool Inc. (Empire) to supply certain drilling related equipment and rentals. One of the former officers of Trinidad was a director and shareholder of Empire. This relationship has ceased as of May 1, 2014. During the year ended December 31, 2014, Trinidad incurred costs of \$1.9 million (2013 - \$3.0 million) to Empire. At December 31, 2014, nil was due to Empire (December 31, 2013 - less than \$0.1 million).

Trinidad had previously engaged Kodiak Environmental / EZ Core Ltd. (Kodiak) to supply certain drilling related equipment. One of the officers of Trinidad is a director and shareholder of Kodiak. During the year ended December 31, 2014, Trinidad incurred no costs (2013 - \$0.1 million) to Kodiak. At December 31, 2014, no amount was due to Kodiak (December 31, 2013 - nil).

Trinidad is party to a joint venture arrangement with a wholly-owned subsidiary of Halliburton to operate drilling rigs outside of Canada and the United States through a jointly owned entity. During the year ended December 31, 2014, Trinidad recorded revenue from Halliburton of \$26.3 million (2013 - \$7.2 million). At December 31, 2014, \$0.5 million was included in accounts receivable balance relating to amounts receivable from Halliburton related to rig upgrades and new build costs (December 31, 2013 - \$17.7 million in deferred revenue).

Key Management Compensation

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company. Trinidad has identified key management personnel as directors, executive officers and department heads.

The following discloses the amounts recognized as expense during the year related to key management personnel:

Year ended December 31, (\$ thousands)	2014	2013
Wages and short-term benefits	5,754	6,822
Post-employment benefits	—	—
Other long-term benefits	—	—
Termination benefits	—	—
Share-based (recovery) expense	(344)	7,632
	<u>5,410</u>	<u>7,851</u>

The following discloses the number of units in share-based payment plans held by key management personnel:

As at (Number of units)	December 31, 2014	December 31, 2013
Stock option	—	25,000
Deferred share units	266,791	337,026
Performance share units	1,102,134	1,135,365

Legal Entities

The following is a list of active legal entities through which Trinidad conducts its operations excluding joint venture entities, all are 100% owned:

As at December 31, 2014 Entity	Principal activity	Country of Incorporation
Trinidad Energy Services Income Trust	Holding company	Canada
Trinidad Well Servicing Ltd.	Holding company	Canada
1605048 Alberta ULC	Holding company	Canada
1196899 Alberta ULC	Holding company	Canada
Trinidad Holding Co.	Holding company	United States
Trinidad Drilling USA Ltd.	Land drilling	United States
Trinidad Drilling LP	Land drilling	United States
Trinidad Drilling LLC	Land drilling	United States
Trinidad Design & Manufacturing US, Inc.	Construction	United States
Axxis Drilling Inc.	Land and offshore drilling	United States
Axxis Drilling (Land) Inc.	Land and offshore drilling	United States
Axxis Drilling (Bareboat) Inc.	Barge operations	United States
TDL Luxembourg Ltd.	Holding company	Canada
TDL Financing Luxembourg SARL	Holding company	Luxembourg
Trinidad Luxembourg Ops Sarl	Holding company	Luxembourg
Trinidad Drilling International Ltd.	Holding company	Canada
Trinidad Colombia SAS	Holding company	Colombia
TDL Mexico SA de CV	Land drilling	Mexico
Trinidad Drilling Services Mexico SA de CV	Labour services	Mexico
TD Cayman Ltd	Holding company	Cayman
TDL Management Services JLT	Holding company	Dubai
Trinidad South America General Partner Ltd.	Holding company	Canada
Trinidad Drilling South America Limited	Holding company	Canada
Trinidad South American Limited Partnership	Holding company	Canada
TDL Leasing Ireland Limited	Rig leasing	Ireland

21. EXPENSES BY NATURE

The Company presents certain expenses in the consolidated statements of operations and comprehensive income by function. The following table presents those expenses by nature:

(\$ thousands)	Year ended December 31,	
	<u>2014</u>	<u>2013</u>
Expenses		
Wages and benefits	249,447	307,350
Materials and supplies	254,324	90,581
Third party costs	56,358	53,810
Repairs and maintenance	84,728	79,108
External services and facilities	44,748	42,999
General and administrative - third party costs	1,454	827
Share-based payment expense	765	12,410
	<u>691,824</u>	<u>587,085</u>
Allocated to:		
Operating expense	626,175	516,081
General and administrative	65,649	71,004
	<u>691,824</u>	<u>587,085</u>
Foreign exchange		
Foreign exchange - realized	437	1,279
Foreign exchange - unrealized	4,580	63
	<u>5,017</u>	<u>1,342</u>
Finance costs		
Interest on long-term debt	37,314	38,130
Accretion of 2019 Notes	431	371
Deferred financing costs on long-term debt	1,786	3,867
	<u>39,531</u>	<u>42,368</u>

22. FOREIGN CURRENCY TRANSLATION

The foreign currency translation adjustment relates to Trinidad's non-Canadian operations that have functional currencies that differ from the Canadian dollar and exchange differences on Trinidad's senior notes held in US dollars. When the settlement of a balance is not foreseeable in the near future, foreign exchange gains and losses arising on the translation of intercompany balances are considered part of the net investment in the foreign operation. All amounts will be reclassified to profit or loss when specific conditions are met.

(\$ thousands)	Year ended December 31,	
	<u>2014</u>	<u>2013</u>
Unrealized gain on translation of foreign operations with functional currency different from Canadian dollar	90,875	60,617
Foreign exchange loss on net investment hedge with US dollar denominated debt, net of tax ⁽¹⁾	(32,809)	(21,810)
Total foreign currency translation adjustment	<u>58,066</u>	<u>38,807</u>

(1) Net of tax amount for the years ended 2014 and 2013 is \$11,120 and \$9,579, respectively.

23. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

For the years ended December 31, (\$ thousands)	<u>2014</u>	<u>2013</u>
Accounts receivable	(47,078)	22,468
Inventory	(19,630)	285
Prepaid expenses	(10,638)	(529)
Accounts payable and accrued liabilities	16,803	(1,264)
Deferred revenue	(21,428)	28,451
	<u>(81,971)</u>	<u>49,411</u>
Pertaining to:		
Operations	(60,454)	67,878
Investing	(21,517)	(18,467)
	<u>(81,971)</u>	<u>49,411</u>

24. SUBSEQUENT EVENT

Subsequent to December 31, 2014, as part of the normal course issuer bid, Trinidad purchased an additional 1,732,380 common shares on the open market for total consideration of \$8.3 million. See Note 12 for further information regarding Trinidad's normal course issuer bid.

The Tender Agent for the Offer is:

Global Bondholder Services Corporation

*By Regular, Registered or Certified Mail; Hand or
Overnight Delivery:*

Global Bondholder Services Corporation
65 Broadway, Suite 404
New York, New York 10006
Attention: Corporate Actions

*By Facsimile Transmission
(for Eligible Institutions only):*

(212) 430-3775

Attention: Corporate Actions

For Confirmation by Telephone:

(212) 430-3774

Questions, requests for assistance and requests for additional copies of this Statement, the related Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Information Agent or the Dealer Manager at their address set forth below.

Copies of this Statement, the related Letter of Transmittal and the Notice of Guaranteed Delivery are also available at the following web address:

<http://www.gbsc-usa.com/Trinidad/>

The Information Agent for the Offer is:

Global Bondholder Services Corporation

65 Broadway, Suite 404
New York, New York 10006
Attention: Corporate Actions

or

Call Toll-Free (866) 470-4300

Banks and Brokers Only: (212) 430-3774

Email: **contact@gbsc-usa.com**

The Dealer Manager for the Offer is:

RBC Capital Markets, LLC

Brookfield Place
200 Vesey Street, 8th Floor
New York, New York 10281
Ref: Liability Management
Banks and Brokers Call Collect: (212) 618-7822
Toll Free: (877) 381-2099