



February 22, 2018

Re: Trinidad Drilling Strategic Review Process and Strategy Update

Dear Fellow Shareholder

I am writing to you regarding our Board of Director's recent announcement to initiate a strategic review in an effort to enhance shareholder value. We believe that the current trading price of our common shares does not reflect the value of our assets and our impression, based on feedback from recent board engagement with major institutional shareholders, is that a number of our shareholders have a similar opinion.

In addition, through our shareholder engagement process, it became clear that we haven't done an effective job of communicating our strategy or our future prospects. This letter is also intended to provide an update of our ongoing strategy.

### **Strategic review**

As part of the strategic review process, the Board intends to undertake a comprehensive review of alternatives that may include a sale of selected assets, a merger, a corporate sale, a strategic partnership, various capital re-deployment opportunities or any combination of the foregoing.

The Board has appointed a special committee of independent directors to facilitate and lead the review and the Board has engaged TD Securities Inc. and Blake, Cassels & Graydon LLP as its financial and legal advisors, respectively, to assist it with the review.

Throughout the strategic review process, Trinidad will continue to execute on its business strategy. The Company is in a strong financial position, generating free cash flow from its core business to fund its previously announced capital program, and also has additional liquidity through its existing credit facilities. Trinidad's management team and the Board are committed to acting in the best interests of the Company and believe this will ultimately benefit shareholders, staff and customers, as Trinidad will continue to provide industry-leading solutions for its clients and to add long-term value for shareholders.

## **Strategy**

Our strategy is to have a rig fleet with the highest average earning capacity, not the largest fleet or market share. Capital discipline starts with the right assets, driven by the needs of our clients, focused in the right geographies. We are a high spec, performance-based drilling contractor. Our strength has always been investment in core drilling rig technology and rig design that drives performance for our clients. We are focused on sticking to what we are good at.

The drilling industry's investment in high specification drilling equipment has created efficiency gains that allow producers to economically drill completely new well profiles. However, in the past few years, the benefit of this investment has accrued not to drilling companies but rather to oil and gas producers. Investing in older legacy assets or assets in the wrong geography simply erodes our asset class and lowers our earning capability.

Clients are now asking drillers and service providers for bundled services or expanded service lines. Our clients want this integrated delivery model on select services because it reduces their execution risk. This demand has been the driving factor behind Trinidad selectively adding complementary services that deliver high margins but require low capital investment, relative to our drilling rigs. We have the ability to leverage off our key strengths and provide enhanced returns to shareholders on a capital-efficient basis by pursuing this model.

For Trinidad, 2017 was a year of change. Despite having one of the most experienced operational teams with proven technical capability and a high spec rig fleet, we were delivering financial results which have been, for the most part, at or just above average. We stepped back and took an objective view of our operational and financial performance.

We created an environment of ownership and accountability. An environment focused on achieving financial results, driving strong return on capital and improved returns for shareholders. Since March 2017, Trinidad's management team, together with our directors, have worked diligently to create this environment and have taken steps to improve our performance.

## **US and international conditions**

Revenue from our US and international operations represented almost 70% of our total revenue in the trailing twelve months ended September 30, 2017. Our strong revenue generation in this area is primarily due to rapid improvement in the US, especially in our main area of focus in the Permian Basin in west Texas, where conditions continue to improve. The international operations have lagged the US, but we are taking steps to change that.

In the US, our clients' capital spending is increasing and we are adding rigs and market share, with an improving pricing environment focused on strong capital returns. We have been very calculated in when and how we invest capital, ensuring client commitments contractually protect our investment but provide the ability to enhance dayrates on a go-forward basis. We have created optionality for our

shareholders to grow our business with the right geography, client base and with an asset class to provide strong capital returns.

For our international business in the Middle East and Mexico, we will be pursuing initiatives that provide improved and stable, long-term returns, reduce contract risks and increase the concentration of our operational activity. Given current opportunities, we believe these objectives will be achieved during 2018.

- Recently, we announced the transfer of three of our Saudi rigs to the US and one to Bahrain. The Saudi market and Saudi Aramco have been reducing the number of service companies and drillers in the country. Pricing has become very competitive and the returns on a risk-adjusted basis do not warrant continuing an operation in the Saudi market.
- We expect to move some, or all, of our four Mexican rigs, which are among our largest and best performing rigs, to stronger markets in 2018. Our Mexican business has struggled to perform consistently and remain contracted, given the financial position of Petróleos Mexicanos and Mexico. Despite setting records for drilling efficiency and safety in our operations, contracting decisions in Mexico continue to be made based largely on political or social factors, rather than financial factors.

### **Canadian conditions**

Last month we announced our intention to move two of our Canadian rigs to the US. Canada has seen little or no improvement in market conditions, in sharp contrast to the US. Drillers focused only, or primarily, in Canada have not been generating acceptable returns due to a lack of pipeline capacity, increased costs, and expanded production. The reaction from our clients in the Canadian market has been a reduction in capital spending and in some cases a move away from Canada.

Even with significant industry consolidation in the Canadian drilling sector, we have not seen any appreciable improvement in pricing power in Canada. The Canadian market is simply shrinking too quickly for consolidation to create improved pricing, at least in today's economic environment. In most cases, our Canadian clients simply cannot afford to pay any more.

### **What have we done**

#### **Operational changes**

- Made significant management changes to our executive team and our senior operational team.
- Combined our global operational teams under Adrian Lachance as our Chief Operating Officer. Adrian has been at Trinidad since 2003 and is the technical drilling mind behind our CanDrill rig design and our Intelligent Rig Information System (IRIS) control system. This change creates strong consistency and accountability across our drilling operations.

- Established a global procurement group which has streamlined all our purchasing activities, executed global supply agreements and created millions of dollars in operational savings.
- Created more visibility and accountability throughout the organization for achieving results through cost control and capital management reporting.
- Implemented a fresh approach to capital investment using full-cycle investment criteria, risk adjusted by geography.
- Provide quarterly reports to our directors on the status of return on capital.
- Financial returns are a key benchmark in our short-term incentive program (STIP) and long-term incentive program (LTIP) plans throughout organization.
- Reduced general and administrative (G&A) expenses by eliminating approximately \$7 million in one-time G&A expenses incurred in 2017 and eliminating a further approximately \$8 million in annual G&A expenses. These initiatives position Trinidad as one of the most cost-effective drillers in our sector.
- Senior executives and directors took a 15% reduction in base compensation.

### **Shareholder alignment**

- Completed a realignment of compensation plans throughout the whole company to drive accountability and alignment with shareholders.
- Performance measures added to the performance share unit (PSU) plan (part of the LTIP plan) at the time of vesting to ensure alignment to shareholders. Our PSU plan is now tied 100% to total shareholder return and return on gross assets.
- STIP bonus pool capped to a fixed percentage of adjusted EBITDA.
- STIP metrics 100% tied to financial measures that drive shareholder value, including peer capital efficiency ratio and profitability measures.
- Introduced double trigger requirements for all LTIP programs.
- Added claw back provision to executive compensation plans.
- Senior executives have been, and intend to continue to, add to their share ownership as blackout periods permit.

### **Looking ahead**

There is no guarantee that the strategic review process we are undertaking will result in a transaction. To that end, our Board and management team will continue to manage our business carefully. We will remain focused on providing customers with the strong performance they have come to expect from Trinidad, while also maintaining our commitment to the safety of our crews and the condition of our high performance equipment.

We want to assure you that Trinidad is committed to taking the necessary steps to create alignment with our shareholders, with a focus on improving profitability and on delivering above-average return on our capital.

We will continue to proactively communicate with our shareholders as the year progresses. If at any time you have any questions or concerns, please feel free to reach out to me or any member of our management team.

Sincerely,

Brent J. Conway  
President & CEO  
Trinidad Drilling Ltd.

**For further information, please contact:**

Brent Conway  
President & Chief Executive Officer  
403.265.6525

Lesley Bolster  
Chief Financial Officer  
403.265.6525

Adrian Lachance  
Chief Operating Officer  
403.265.6525

Lisa Ottmann  
Vice President, Investor Relations  
403.294.4401

Email: [investors@trinidaddrilling.com](mailto:investors@trinidaddrilling.com)

Corporate presentation [https://www.trinidaddrilling.com/Presentations/current\\_presentation.pdf](https://www.trinidaddrilling.com/Presentations/current_presentation.pdf)

