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Trinidad Drilling Ltd. (TDG.CA)

Q2 2018 Earnings Call

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Analyst, CIBC World Markets, Inc.

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Ian B. Gillies

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Joanna and I will be your conference operator today. At this time, I would like to welcome everyone to the Trinidad Drilling Second Quarter 2018 Financial Results Conference Call and Webcast. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session [Operator Instructions] . Thank you.

Lisa Ottmann, Vice President, Investor Relations, you may begin your conference.

Lisa Ottmann

Vice President-Investor Relations, Trinidad Drilling Ltd.

Thank you and thank you for joining us today. We'll be discussing Trinidad Drilling Limited's second quarter 2018 financial and operating results which we released yesterday. A full copy of the MD&A and financial statement, along with a presentation outlining the quarter highlights are available on our website at trinidaddrilling.com. Our second quarter 2018 results are also available at sedar.com.

Please note that during the call we will be discussing forward-looking information relating to the various areas of our business including but not limited to the assumption that Trinidad's customers will honor their take-or-pay contracts; the ability for Trinidad to attract and retain qualified crews to operate their rigs; assumptions respecting capital expenditure programs by oil and gas exploration and production companies; assumptions made about future performance, or operations of the joint ventures; assumptions made about future liquidity, future dayrates, and operating costs; the company's ability to make free cash flow commitment and performance targets; and other expectations about future events or performance.

Such information and 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 information or statements, and you are cautioned to not unduly rely on such forward looking statements.

For a copy of our full forward-looking disclaimer, please refer to the disclaimer included [ph] (1:55) news release or our MD&A. The conference call may also include non-GAAP measures. For a definition and reconciliation of the non GAAP measures, please refer to our MD&A.

I'm joined this morning by Brent Conway, President and Chief Executive Officer; and Lesley Bolster, Chief Financial Officer. Lesley will begin with a review of our second results, followed by an update on current industry conditions, our future outlook, and some discussions regarding the recent conclusion of our strategic review by Brent. We encourage you to read our full MD&A and financials for additional details and commentary.

Please go ahead, Lesley.

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

Thank you, Lisa. Good morning. Our second quarter results showed significant improvement over the same quarter last year as a result of strengthening industry conditions and also due to changes we have made in our business over the past year.

In the second quarter, activity levels and dayrates increased in both the U.S. and Canada driving a 28% increase in revenue generation compared to the same quarter last year. These factors combined with lower operating expense per day in the U.S. and Canada and lower G&A costs drove significant improvement in adjusted EBITDA this quarter, up 125% from the second quarter of 2017.

Adjusted EBITDA in the second quarter was CAD 33 million, up from CAD 15 million in the same quarter last year and down from CAD 38 million in the first quarter. Adjusted EBITDA was lower than the first quarter due to lower activity in our Canadian operations as a result of typical seasonality.

In the U.S. and the international division, dayrates increased 6% on the same period last year and 4% from the first quarter as a result in increased demand and strong execution on performance based contracts. In addition, dayrates increased in the current quarter as higher [ph] base rates (3:34) were pushed through to customers. These factors were currently offset by a change in the active rig mix as more heavy doubles operated in the current quarter. Ongoing strength in the second quarter drove increased activity in the U.S. with Trinidad recording 24% more operating days since than the same quarter last year and 7% more than the first quarter of 2018.

Operating expenses per day were lower than the same quarter last year as a result of cost control measures and lower rig reactivation cost in the current period. Operating expenses per day increased from the first quarter largely due to wage increase in the current period as a result of the [ph] changing (4:11) labor market particularly in the Permian area and higher repair and maintenance costs and other one-time costs of approximately US\$ 300 per day.

In Canada, activity levels increased by 24% and dayrates increased by 7% over the same time last year as industry conditions improved. The strong improvement drove higher revenue generation and combined with lower operating expense per day resulted in an increase of 149% in operating income compared to the same quarter last year. In addition to increased customer demand, a change in the active rig mix in the current quarter also had

a positive impact on dayrates. When compared to the first quarter, dayrates increased as a result of improved market condition and a change of rig mix, as larger rigs with dayrates contributed a greater proportion of operating days in the current quarter. Operating expense per day increased in the current quarter compared to the first quarter largely due to fewer operating days to absorb the fixed cost as a result of typical seasonality.

Adjusted EBITDA in the joint venture lowered in the current quarter compared to the same quarter last year as a result of lower activity and less early termination and standby revenue. Adjusted EBITDA in the joint venture increased from the first quarter as the rig in Bahrain began operations this quarter and joint venture began the process of moving and upgrading rigs for Kuwait.

In the second quarter G&A costs were approximately CAD 8 million, down from CAD 13 million from the same quarter last year and the first quarter. G&A costs decreased due to lower rent and salary expenses. Rent cost lowered as a result of moving our head office location to take advantage of lower lease expenses. As part of this move, the leasehold credit we have received at our previous location was fully amortized in the current quarter, providing a one-time benefit of CAD 2.8 million. This is currently offset by approximately CAD 800,000 in restructuring and strategic review costs in the quarter.

Excluding these items, G&A cost still remain below the prior period and at 8% of revenue in the quarter. We expect G&A costs, excluding share-based payment expenses and third-party recoverable costs and costs related to the strategic review, to be approximately CAD 40 million in 2018, a 31% reduction from our 2017 levels.

In 2018 we expect our capital expenditures to total approximately CAD 82 million, net of proceeds from expected asset sales. This includes maintenance capital [indiscernible] (6:37) U.S. rigs and upgrades from two joint venture rigs moving to Kuwait. Partly offsetting these costs are proceeds from the sale of the joint venture Saudi rigs and expected proceeds from the [ph] sale of unused facilities (6:50).

In the second quarter, long-term debt lowered from the end of the first quarter by approximately [ph] CAD 80 million (6:55) as a result of increased [ph] fund flow (6:58) and the distribution from our joint venture. We continue to expect to be able to fund our 2018 capital program with cash flow from operations and proceeds from asset sales.

Now, I will turn the call over the Brent to provide some insights into current industry conditions and our future outlook.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

Thank you, Lesley, and good morning, everyone. As Lesley mentioned, industry conditions were strong in the second quarter. The U.S. continued to show firm customer demand and we're pleasantly surprised with the ramp-up of activity [indiscernible] (7:25) Canada. These conditions have persisted to-date in the third quarter and we are expecting our operations to continue more strongly for the remainder of 2018.

Currently, we have 42 rigs or 64% of our U.S. fleet offering. We continue to have strong market share in the Permian with 34 rigs operating in the basin. Our customers remain active in the development plan. And while we have heard concerns about shut – slowdown in the Permian as a result of transportation bottlenecks, we have not seen a major change in our customers' activity. The majority Trinidad's clients have firm transportation commitments in place and are less impacted by these restraints. In Canada, we have 32 rigs or 47% of our Canadian fleet offering, above the industry average which is currently 39%. The improved activity in dayrates we

saw on the second quarter continued through the third quarter and we have constructed positions with customers regarding their upcoming [indiscernible] (8:20).

In our Halliburton joint venture we are currently [ph] – have one rig (8:25) operating in Bahrain and one rig working in [indiscernible] (8:27). We have begun moving two rigs that will be going to Kuwait. We are initially going to Houston where we will do some of the upgrades and then move onto Kuwait [ph] for our final completion (8:35). The rigs are expected to be operational late in the first quarter or early in the second quarter of 2019.

With the improved market conditions in the past few months we've been able to add new contracts and extend existing contracts often at higher dayrates. Of the eight rigs in our U.S. upgraded program we have successfully contracted seven and expect the remaining rigs to be contracted by the end of the third quarter. We currently have 35 rigs at 25% of the fleet under long term contract with an average term remaining of one year.

The rollout of our technology platform is progressing well. We recently added to the platform with our acquisition of GMXSteering adding frac optimization software that we tested with the help of two of our key clients. We are continuing currently building customer awareness of this product offering, partnering with additional customers and conducting pilot projects. We expect the contribution from this project to ramp up over the next year.

We announced last week that after a comprehensive public process, we have concluded our strategic review process. The board viewed a number of opportunities reflected but felt that we did not reflect – those opportunities did not fully reflect the value of the company and decided that the best alternative to improve shareholder value is to pursue our revised five-year strategic plan. The key initiatives from this plan include a focus on improved financial discipline with a commitment of towards 15% of free cash flow which we define as adjusted EBITDA less interest and taxes for debt repayment or share buybacks in 2018. This commitment increases to 20% next year and for the following years. In addition we have set clear and measurable targets to demonstrate our long term commitment to improve profitability, lower leverage and higher returns.

The specifics to these targets are outlined in the materials we put up last night. I would also encourage you to read the presentation that is on our website to get a more detailed understanding of our plan and how we expect to meet our new targets.

We have a strong asset base, an improved cost structure and a solid financial position. With these key elements and the revised strategic plan, we're confident we can create value for our shareholders.

Before I conclude, I would like to take a moment to thank our employees, our customers and our shareholders as well our debtholders for their patience and loyalty over the past few months. We understand it's been a difficult time and we appreciate your support.

While the process did not result in a transaction, we did take a thorough review of our business and I've highlighted a number of areas where we believe we can do better. We are committed to making these changes and we look forward to showing our progress over the coming quarters.

Thank you for listening. I would like to now turn the call back to operator to take any questions from anybody on the line.

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions] And your first question comes from Aaron MacNeil at TD Securities. Aaron, please go ahead.

Aaron MacNeil

Analyst, TD Securities, Inc.

Q

Hey. Morning, all.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Morning, Aaron.

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

Good morning.

Aaron MacNeil

Analyst, TD Securities, Inc.

Q

Of the – and forgive me if I missed this, there was a bit of a disruption on the line there, I couldn't hear all the comments. But of the US\$ 684 sequentially increasing U.S. dayrates, how much of that would've been labor and how much of that would've been just pure dayrate increases?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

So, overall we said there's one-time of US\$ 300 per day and that represents basically your [ph] equivalent supply purchasing and transportation (11:58). And then on labor, we're estimating it's about a US\$ 300 per day in the quarter, but that only started mid quarter, so it's US\$ 150 per day.

Aaron MacNeil

Analyst, TD Securities, Inc.

Q

Got it.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

But of this equation, Aaron, just so you understand there's a lot of heavy doubles, so, working in the quarter as well. So, the average dayrate is impacted by the rig mix. So, it's not fair to just say that US\$ 300 of that was related to labor because the average dayrate is getting impacted by rig mix, just to make sure we don't misguide you there.

Aaron MacNeil

Analyst, TD Securities, Inc.

Q

Right. Yes.

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

And the [indiscernible] (12:39) as well.

A

Aaron MacNeil

Analyst, TD Securities, Inc.

Okay. And then on the [ph] R&M side (12:44), and again sorry if I missed this, you guys said it was slightly higher. Can you quantify that? And is it all related to the recertifications or are there other items in there as well?

Q

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

So, there is regular recertifications [indiscernible] (13:00) and then I'd like to add there's about [ph] US\$1 million (13:02) there and that's one-time [ph] if you back into the (13:05) US\$300 per day.

A

Aaron MacNeil

Analyst, TD Securities, Inc.

Got you. And what were the other one-time costs in the quarter?

Q

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

With regard to U.S.?

A

Aaron MacNeil

Analyst, TD Securities, Inc.

Yes.

Q

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

Yes. That's really [indiscernible] (13:19) go back to transportation and equipment.

A

Aaron MacNeil

Analyst, TD Securities, Inc.

Okay. That's all from me. Thanks.

Q

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

Okay, thanks.

A

Operator: Thank you. Your next question comes from Josef Schachter from Schachter Energy. Josef, please go ahead.

Josef Schachter

Analyst, Schachter Asset Management, Inc.

Q

Thank you very much. Brent and the team, congratulations on a great quarter given the tough times in Canada. Looking at a margin in Canada, [ph] 7,300 a day (13:47) just up from just under [ph] 3,600 (13:49), you talked about a mix change. Can you put a little more granularity to that significant improvement and then second part of that is how do you see that continuing into Q3 and Q4?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

So, as we look at what the margins are, for Canada specifically the margins – we saw dayrates improved [indiscernible] (14:13) stayed relatively flat pretty much across the board in terms of the fleet. So, that's really what's impacting the margins. We did have one rig working in the quarter which is typical for us. We had one large rig that was working [indiscernible] (14:27) revenue. That positively impacted that as all but that was there in the first quarter and fourth quarter as well.

So, it's just, that is just broader based, better market conditions in Canada than what we really thought and dayrates moving a little bit – they're moving in the right direction across the board. We have more triples working in the quarter than we did certainly last year at this time. So, it's just broad, really broad improved market conditions that kind of caused the growth in that number.

Josef Schachter

Analyst, Schachter Asset Management, Inc.

Q

And you see that continuing into the end of the year?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Yes, right now we see – we've got a few clients that have backed off on some of the projects that they're talking about going into Q3. I still think the dayrates will hold. I think activity – well, we certainly think it's going to be strong stronger than it was last year, but we do have some clients that are more focused on, say, dry gas or have decided to pull back a little bit but it still looks like the dayrates are going to be there, the margins are going to be there, activity may take a little bit of a step back in Q3 in Canada just as people kind of get wrapped up for [ph] winter (15:39)

Josef Schachter

Analyst, Schachter Asset Management, Inc.

Q

Okay. Super. Well, congratulations again.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Thank you.

Operator: Thank you. Your next question is from Greg Colman from National Bank. Greg, please go ahead.

Greg Colman

Analyst, National Bank Financial, Inc.

Q

Hey, thanks very much. Just a couple of quick ones here. You're guiding to CAD 40 million in G&A in 2018. Could we look at that as a run rate based on your initial expectations for 2019 as well? And I'm thinking about run rate either in absolute dollar terms or as a percentage of revenue?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

No, I think it's fair to say that we obviously are – our strategic objective is [ph] 7% to 8% so CAD 40 million (16:32) is probably reasonable.

Lisa Ottmann

Vice President-Investor Relations, Trinidad Drilling Ltd.

A

Can you hear us [indiscernible] (16:36)

Greg Colman

Analyst, National Bank Financial, Inc.

Q

Sorry, what was that, Lisa?

Lisa Ottmann

Vice President-Investor Relations, Trinidad Drilling Ltd.

A

Can you hear us better?

Greg Colman

Analyst, National Bank Financial, Inc.

Q

It sounds like you're talking in a submarine. But, outside of that [indiscernible] (16:47)

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

All right.

Lisa Ottmann

Vice President-Investor Relations, Trinidad Drilling Ltd.

A

I guess we need to work on that [indiscernible] (16:49)

Greg Colman

Analyst, National Bank Financial, Inc.

Q

No worries. Just a couple other quick ones here on one-time cost and revenue. With the strategic review wrapping up, are there any one-time costs associated with that which we would expect to fall off beginning in Q3?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

So, [ph] we closed the process (17:06) last week. There is still some of it remaining a little bit lingering cost for July, but nothing material.

Greg Colman

Analyst, National Bank Financial, Inc.

Q

And how much would that be running on a full quarter basis?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

Honestly, we haven't done a full estimate yet, we haven't received all the invoicing but this would be much smaller than what you saw in Q2.

Greg Colman

Analyst, National Bank Financial, Inc.

Q

Got it. Okay. And then on the one-time revenue side, do you have any – currently have any early termination payments anticipated in either Q3 or Q4?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

It will be just same as we had in Q2 for that one rig in Canada [indiscernible] (17:38)

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

And just to clarify that, that isn't anything abnormal from what we would have earned if the rig was running. So, that's normal operating margin, and we only book it in quarter as shortfall when obviously the rig doesn't work. So, we would have earned this revenue if the rig was running anyway. So, [indiscernible] (17:56) started I think Q3, Q4 last year or even before that. So, it's not something that's new.

Greg Colman

Analyst, National Bank Financial, Inc.

Q

And what does that run through to?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

Early 2020.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

2020.

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

[ph] Given the rig doesn't go back to (18:10)...

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

[ph] Four of the rigs was back to work (18:12)

Greg Colman

Analyst, National Bank Financial, Inc.

Q

Got it. And then this is the last one from me just for perfect clarity and with a lot of headlines with the Middle East right now, your Saudi exposure is now zero post the sale of those two rigs and wind down of that operation. Is that correct?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Yes, we've got to wind down that operation. We don't have any assets in Saudi. We're obviously working in Bahrain and moving into Kuwait but we don't have anything specific, we don't have any assets in Saudi.

Greg Colman

Analyst, National Bank Financial, Inc.

Q

And that's close in everything, there's no – we're not waiting for payments or for it to actually be finalized. It's closed and wrapped up.

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

That's correct. We received the proceeds for the last rig in July.

Greg Colman

Analyst, National Bank Financial, Inc.

Q

Great. That is it from me. Thanks again.

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

Thank you.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Thank you.

Operator: Thank you. Your next question is from Jon Morrison from CIBC. John, please go ahead.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

Good morning, all. Can give any more color on the contract profile that you have in the Permian and whether the average duration of the term for your Permian rigs is meaningfully different than the corporate numbers that you guys publish?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

We don't really get into that level of detail, Jon. I think the average terms of the contracts that we signed in the Permian is probably a year to two years. We have some clients that have [ph] asked us to sign (19:29) longer contacts which is kind of like three to five years. But I don't think it's materially different than the corporate number. That might be a little longer in tenure, maybe even closer to a year and a half. But certainly the change that has happened is that the Canadian contracts tenure has certainly shortened over the last two or three years.

And in the U.S., not just the Permian but just the U.S. market, you continue to get one and two years type deals. So, that's kind of the color that I can give you.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

Okay. Because what I'm basically trying to get at is would it be fair to say that the confidence that you have about being somewhat immune to a short term pullback in the Permian is largely driven more so by customer mix than perhaps contract term. Is that fair?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

I think it's both. I think it's a little bit of contract term and it is customer mix. We do look at a lot of things with specifics to our customers in terms of who we partner with. Gone are the days where you partner with a client and you aren't looking at their balance sheet, you're looking at their plays, their activity, what they can do, what their capital spend profile is going to be and even to this extent where – how they're going to produce and deliver their product. So, we do look at that. I think it's a bit of both, to be fair.

We've partnered with the right clients to make sure that we don't see disruptions in their ability to deliver their products that are going to meaningfully impact our business. I think it is certainly [ph] a big theme (21:00) that's out there around the Permian and I think it's probably hypersensitive to this market just as we do have such big pipeline issues.

If you look, if you do the research and certainly what I've seen it does [indiscernible] (21:13) we've got a pipeline [ph] gas (21:14) in the Permian and kind of half way through 2019 and by the end of 2019, first quarter of 2020 [ph] to close it, the pipeline is already being built (21:22). So, it's not the same backdrop of pipeline constraints that we have in Canada but I guess at Trinidad we do the right thing in terms of partnering with the right clients. But it is both in terms of just kind of give you your answer, it's been both [ph] contracts period (21:38) and client mix.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

Perfect. That's really helpful. And again sorry if I missed this just with some of the background noise, but Lesley can you confirm whether we should be expecting any cash outlays associated with the strategic review in Q3 at all?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

Yes, there's just some minimal cost, maybe less than in Q2, [ph] just the kind of July record (21:57)

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

And you guys said that the contract term in that Rig 58 expires in 2020. Is there any potential discussion of that rig going back to work earlier than the end of the contract term or largely right now it looks like it's going to be the ongoing standby fees?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

There has been talks but it's really going to depend on what the client wants to do. There is talk that it will go back to work sometime between now and then but it's really dependent on I think what their economic outlook is.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

Okay. Based on the current line of sight in Canada, would you expect to continue rig deployments in the coming months or do you need to see incremental firming up in the spot market to see the rig count continue to rise from here heading into the end of the year.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

I think you'll see the normal ramp-up as we get into Q4. I think commodity prices, even though we still are fighting a differential, it's still in a point where I think there's a lot of our clients can get a decent return what they're trying to do. I think it will [ph] be knitted (23:11) towards what we do well, which is the high spec market both in the AC side and the [indiscernible] (23:16) seems to be where we're getting the most traction.

But the market overall is better than where we were last year in terms of activity and better in terms of the dayrate. So, I do think you're going to see increased activity. I think you might, like I said in the previous question, I think you might see a bit of a flattening out here in Q3 and then the normal ramp-up going into Q4 and Q1.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

Of the incremental rigs you guys expect to have active by the end of the year, are those all earmarked for the Permian? And can you say whether they're firmly committed at this point?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

They are not all earmarked for the Permian, some are going other areas. And of the eight that are in our capital budget, seven are contracted. The last one we expect to be contacted here in the next quarter for sure. And basically it's kind of – it's the Permian, it's the Eagle Ford, it's the SCOOP STACK, it's East Texas, it's South Texas. I think what has happened is that in some cases, clients have taken capital dollars and moved them out of West Texas in the short term because of the commodity prices improved and they want to avoid that differential that you have a problem with transportations. We've seen some of that, but it's very client-specific and area-specific. So, it's not entirely focused on Permian. It's just kind of generally in the U.S. market there is still a need for that high spec rig.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

I realize it's probably a little bit challenging for you guys to predict as it is for us but in terms of the JV and some of the costs that are going to be associated with getting the rigs ready for Kuwait, should we be expecting it to be producing cash in the back of the year or possibly losing some cash [indiscernible] (25:10) perspective?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

So, overall on the Kuwait side, as you can see we're recording mobilization revenue so we also have cost going against that, so it's generating a small margin on that but the cash flow is obviously not coming on the mobilization [ph] to the end, so that's what's recorded (25:25), that's what you're going to see in some of it. And that was approximately about [ph] US\$ 1 million (25:33) of mobilization recorded in that quarter.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

Okay. That's helpful. Last one just from me. Just on the technology initiatives because you guys have talked about it. Can you share the number of paying clients you guys have for the various products at this point and would it be where you would expect it to be trending at this point?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Yes, so on the EDR side I think we've got two or three clients paying [indiscernible] (25:52) had two pilots where we've got paid for our services and we're about to start another one. I think it's no secret, the technology platform in terms of the development and deployment of that is taking longer than we thought but we did the technology play. These things do take time. So, we're getting good traction with clients. We continue to advance that deployment and partnering with clients to test the technology with pilots out. So, I think things are going as we expected probably a little slower than what we expected but we're seeing some good things.

Jon Morrison

Analyst, CIBC World Markets, Inc.

Q

I appreciate the color. I'll turn it back.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Thanks.

Operator: Thank you. Your next question is from Ian Gillies from GMP. Ian, Please go ahead.

Ian B. Gillies

Analyst, GMP FirstEnergy

Q

Good morning, everyone.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Good morning, Ian.

Ian B. Gillies

Analyst, GMP FirstEnergy

Q

With respect to the U.S. margins and the quarter-over-quarter change, perhaps thinking of it a bit of a different of call it 300 basis points or so. I mean what do you think is recoverable in future quarters based on what's typically passed through and so forth, just trying to get a better understanding there what the rebound may look like?

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

[ph] I think if you take your (27:13) second quarter op cost [ph] per day and you bring it outside the (27:16) US\$ 300 per day we said one-time, you have a reasonable run rate [indiscernible] (27:21)

Ian B. Gillies

Analyst, GMP FirstEnergy

Q

Okay. Sorry, the 300 basis points just been fuzzy coming through.

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

Okay.

Ian B. Gillies

Analyst, GMP FirstEnergy

Q

With respect to your Permian exposure, I mean the last data set we've seen you guys are running about 34 rigs there. And you noted in the release a significant portion have takeaway capacity. I mean based on your work, are you able to quantify that perhaps in rough percentage terms? Is it 80%, 90% just trying to get a sense of how active they may stay?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Yes, I think what we're hearing and what we're seeing is we don't have anybody really on the contracting side that's pulling back and we don't see and we see clients still continuing to ask. We don't want to get into what our clients told us around pipeline capacity [ph] we've asked the question (28:09). I guess what we can tell you is [indiscernible] (28:11) we don't see any of them pulling back because [ph] they can't (28:15) produce their products. I do think that you are going to see some of the [indiscernible] (28:22) the completion side of things, probably get impacted more than we will on the drilling side [ph] certainly (28:27) Trinidad. I just think they are – that we'll continue to drill in wells, [ph] hold lands (28:33) and to the extent they have to, they'll obvious [ph] complete to produce (28:36) and to the extent they have problems then they'll also get other options from trucking and rail. But from our perspective with our client base we just aren't hearing that that's an issue [indiscernible] (28:48)

Ian B. Gillies

Analyst, GMP FirstEnergy

Q

Okay. And maybe along those same lines, has there been any actual examples yet of customers coming to you saying we're upgrading the rigs we're using and we specifically want to use one of your rigs? Or is that just still something you think that may occur here [indiscernible] (29:04) last four or five months of the year.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

No, Ian, that's been happening call it last year where they come to us and said we want to upgrade our fleet, we want a strategic partner, a drilling partner, will you provide two rigs, one rig going to two, two rigs going to four, that's continued to happen to us. It's happening to us now. We are at this stage of the game we've kind of shut down what we can do this year and we've told our clients that. There's stuff there that we could if we chose to

spend more capital but we're going to wait and hold out and stick to our capital plan. And as we get into next year, the dayrates are there and it makes sense to do it from a returns perspective, then we'll look at it.

But at this stage of the game we can certainly add rigs that don't need big upgrades, [ph] that need to start if they need (30:03) or we can increase dayrates on rigs that are [ph] re-contracted (30:06). But spending capital dollars in addition to what we've already disclosed to the market, put more rigs to work is not something that we're interested in doing right now where it's not going to go, get outside our capital plans.

Ian B. Gillies

Analyst, GMP FirstEnergy

Q

Got it. And a last one from me, based on the visibility today, I mean are you expecting much more in the way of rig moves in North America whether it be Canada, the U.S. or basin to basin that may impact on the cost side?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Basin to basin typically [ph] the clients carry the load on that (30:44) so you're not really impacted by that cost. Canada and the U.S, I think that's always – with what we've seen in the Canadian market, till that's fixed, that's certainly something that we continue to look at. But you saw this year we waited until we had that mobilization costs covered from clients. I think that's something that a client gets really, I guess, aggressive in terms of trying to get a rig that [indiscernible] (31:12) but we don't have anything that's slated to happen at the end of the year to-date, but that could change. For us it's just basically [ph] the all-in dayrates, the times a day (31:27) and the return that we can get in the U.S market continue to be pretty compelling compared to what we've been able to do in Canada. So, we'll look at it but there's no plans to do any of that for the rest of 2018.

Ian B. Gillies

Analyst, GMP FirstEnergy

Q

Okay. Thanks very much. I'll turn the call back over.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Okay. [ph] Thanks, Ian (31:44).

Lesley Bolster

Chief Financial Officer, Trinidad Drilling Ltd.

A

Thank you.

Operator: Thank you. [Operator Instructions] And your next question is from [ph] Christopher Kenworthy (32:02). Please go ahead.

Q

Hi. I'm a private investor. I was interested in the comment about Saudi Arabia. And I'm pleased to hear that your business with them has been completed. I wonder about Kuwait and Bahrain, and whether their politics are going to interfere with your business there. That's number one. And number two is, I don't understand if everything is so rosy, why the stock price has certainly dropped to 20% to 30% in the last three weeks?

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

So, first one, in terms of what's happening – I'm not going to get into the politics of the region. I don't think I am probably the right person to comment on that. I think we obviously have got a contract with KOC and we've got a contract with our client in Bahrain. We continue to work there and hopefully the political situation does stabilize. We obviously – we've earned their contracts delivering our performance over there, so we'll continue to work over there and hopefully the politics get sorted out.

In terms of the stock price, I think we're not happy with it either. I think it's got a lot to do with the process that we just ended and the sentiment of the sector but it's not an excuse. Our job is to create value and improve that price and tell the story. So, I think this is the third good strong quarter that we've delivered as Trinidad and we've got to continue to do that. I think we all know that. So, I understand your disappointment in the price and I can tell you that none of us are happy either. So, it's our job to keep telling the story and go fix that.

Q

Thank you.

Brent J. Conway

President & Chief Executive Officer, Trinidad Drilling Ltd.

A

Thank you.

Operator: Thank you. There are no further questions. I will now turn it back over to Lisa Ottmann for closing remarks.

Lisa Ottmann

Vice President-Investor Relations, Trinidad Drilling Ltd.

Thank you, and thank you for taking the time to participate in our call. We look forward to talking to you again in the future.

Operator: Ladies and gentlemen, this concludes today's conference call. We thank you for participating, and we ask that you please disconnect your lines.

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