MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of Trinidad Drilling Ltd. ("Trinidad" or the "Company"). The MD&A discusses the operating and financial results for the three and twelve months ended December 31, 2016, is dated March 1, 2017, and takes into consideration information available up to that date. The MD&A is based on the audited annual consolidated financial statements of Trinidad for the year ended December 31, 2016. The MD&A should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2016, prepared in accordance with International Financial Reporting Standards (IFRS).

Additional information is available on Trinidad's website (www.trinidaddrilling.com) and all previous public filings, including the most recently filed Annual Report and Annual Information Form, are available through SEDAR (www.sedar.com).

All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified. All amounts are stated in thousands unless otherwise identified.

FINANCIAL HIGHLIGHTS

For the years ended December 31, ($ thousands except share and per share data)	2016	2015	% Change	2014	% Change [5]
Revenue	**362,144**	551,899	(34.4)	941,334	(61.5)
Revenue, net of third party costs [1]	**344,213**	525,043	(34.4)	883,522	(61.0)
Operating income [1]	**159,577**	222,166	(28.2)	315,159	(49.4)
Operating income percentage [1]	**44.1%**	40.3%	9.4	33.5%	31.6
Operating income - net percentage [1]	**46.1%**	42.1%	9.5	35.7%	29.1
Adjusted EBITDA [1]	**143,002**	186,746	(23.4)	252,046	(43.3)
Per share (diluted) [2]	**0.64**	1.11	(42.3)	1.82	(64.8)
Cash flow provided by operating activities	**30,310**	215,462	(85.9)	156,519	(80.6)
Per share (basic / diluted) [2]	**0.14**	1.28	(89.1)	1.13	(87.6)
Funds flow [1]	**62,618**	108,219	(42.1)	216,973	(71.1)
Per share (basic / diluted) [2]	**0.28**	0.64	(56.3)	1.57	(82.2)
Net (loss) income [4]	**(52,546)**	(218,350)	75.9	6,596	(896.6)
Per share (basic / diluted) [2][4]	**(0.24)**	(1.30)	81.5	0.05	(580.0)
Capital expenditures	**44,326**	140,047	(68.3)	276,647	(84.0)
Dividends declared [3]	**—**	26,668	(100.0)	27,486	(100.0)
Shares outstanding - diluted (weighted average) [2]	**222,496,995**	168,227,833	32.3	138,419,754	60.7
Total assets	**1,982,076**	2,236,200	(11.4)	1,941,621	2.1
Total long-term liabilities	**657,602**	783,254	(16.0)	628,047	4.7

(1) Readers are cautioned that Revenue, net of third party costs, Operating income, Operating income percentage, Operating income - net percentage, Adjusted EBITDA, Funds flow, and the related per share information do not have standardized meanings prescribed by IFRS – see Non-GAAP Measures Definitions and Additional GAAP Measures Definitions (beginning on page 40).
(2) Basic shares include the weighted average number of shares outstanding over the period. Diluted shares include the weighted average number of shares outstanding over the period and the dilutive impact, if any, of the number of shares issuable pursuant to the Incentive Option Plan.
(3) No dividends were declared for the year ended December 31, 2016. For the year ended December 31, 2015, $0.05 per share was declared in the first, second and third quarters, and $0.01 per share was declared in the fourth quarter.
(4) Net (loss) income is net (loss) income attributable to shareholders of Trinidad. Net (loss) income per share is calculated as net (loss) income attributable to shareholders of Trinidad divided by the weighted average number of common shares outstanding, both adjusted for dilutive factors.
(5) Represents the percentage change for the year ended December 31, 2014 compared to the year ended December 31, 2016.

OPERATING HIGHLIGHTS

For the years ended December 31,	2016	2015	% Change	2014	% Change (4)
Operating days (1)					
Canada	**6,144**	7,303	(15.9)	12,203	(49.7)
United States and International	**5,716**	9,474	(39.7)	18,478	(69.1)
Rate per operating day (1)					
Canada (CDN$)	**22,492**	24,907	(9.7)	25,638	(12.3)
United States and International (CDN$)	**35,094**	31,241	12.3	23,873	47.0
United States and International (US$)	**26,518**	24,917	6.4	21,749	21.9
Utilization rate - operating day (1)					
Canada	**23%**	31%	(25.8)	57%	(59.6)
United States and International	**23%**	45%	(48.9)	87%	(73.6)
Number of drilling rigs at period end (3)					
Canada	**72**	72	—	53	35.8
United States and International	**67**	67	—	47	42.6
TDI Joint Venture Operations (2)					
Operating days (1)	**1,709**	2,189	(21.9)		
Rate per operating day (CDN$) (1)	**74,249**	60,478	22.8		
Rate per operating day (US$) (1)	**55,594**	47,732	16.5		
Utilization rate - operating day (1)	**58%**	96%	(39.6)		
Number of drilling rigs at period end (3)	**8**	8	—	6	33.3

(1) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A for further details (beginning on page 40).
(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 the Results from Operations section for details on the changes to the rig count.
(4) Represents the percentage change for the year ended December 31, 2014 compared to the year ended December 31, 2016.

FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking statements relating to Trinidad's plans, strategies, objectives, expectations and intentions. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "confident", "might" and similar expressions are intended to identify forward-looking information or statements. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this MD&A. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. In particular, but without limiting the foregoing, this MD&A may contain forward-looking information and statements pertaining to:

- the assumption that Trinidad's customers will honor their long-term contracts, and Trinidad's ability to sign future long-term contracts;
- future liquidity levels;
- fluctuations in the demand for Trinidad's services;
- the ability for Trinidad to attract and retain qualified personnel, in particular field staff to crew the Company's rigs;
- Trinidad's ability to increase dayrates;
- the existence of competitors, technological changes and developments in the oilfield services industry;
- the existence of operating risks inherent in the oilfield services industry;
- assumptions respecting internal capital expenditure programs and expenditures by oil and gas exploration and production companies;
- assumptions regarding commodity prices, in particular oil and natural gas;
- assumptions respecting supply and demand for commodities, in particular oil and natural gas;
- assumptions regarding future expected cash flows and potential distributions from joint venture partners including Trinidad Drilling International (TDI);
- assumptions regarding foreign currency exchange rates and interest rates;
- assumptions around future Other G&A cost levels;
- the existence of regulatory and legislative uncertainties;
- the possibility of changes in tax laws; and general economic conditions including the capital and credit markets;
- assumptions made about our future banking covenants and liquidity;
- assumptions made about future performance and operations of joint ventures and partnership arrangements;

Trinidad cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect Trinidad's business, operations or financial results are described in reports filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) including but not limited to Trinidad's annual MD&A, financial statements, Annual Information Form and Management Information Circular. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A and Trinidad assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

NON-GAAP MEASURES AND ADDITIONAL GAAP MEASURES

This MD&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 Operating income, Operating income percentage, Operating income - net percentage, adjusted EBITDA, adjusted EBITDA from investment in joint ventures, Funds flow, working capital, Senior Debt to Bank EBITDA, Bank EBITDA to Cash Interest Expense, operating revenue or revenue, net of third party costs, drilling days, operating days, utilization rate - drilling day, utilization rate - operating day, and rate per operating day or dayrate. Please see the Non-GAAP Measures Definitions and Additional GAAP Measures Definitions sections of this MD&A (beginning on page 40) for details with respect to definitions of these measures.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying audited annual consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, Trinidad's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying audited annual consolidated financial statements.

PROFILE

Trinidad is a corporation focused on sustainable growth that trades on the Toronto Stock Exchange 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 United States (US) and internationally. 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's drilling fleet is one of the most adaptable, technologically advanced and competitive in the industry.

OVERVIEW

Trinidad carefully managed its operations in 2016, responding to weak industry conditions in the first half of the year with lower operating costs and reduced general and administrative expenses. As industry conditions and customer demand began to improve gradually in the second half of the year, Trinidad re-activated rigs and increased activity levels, maintaining close attention to rig re-activation costs and keeping capital expenditures to a minimum.

Trinidad recorded Adjusted EBITDA of $143.0 million in 2016, down 23.4% from the previous year as the impact of lower activity levels was partly offset by higher early termination and standby revenue than in the previous year. Net income increased to a loss of $52.5 million or ($0.24) per share in 2016 compared to a loss of $218.4 million or ($1.30) per share in 2015, largely as a result of no impairment expense recorded in the current year.

"Since industry conditions began to weaken over two years ago, Trinidad has responded quickly by lowering costs across our business to manage through one of the longest and deepest downturns in the industry," said Lyle Whitmarsh, Trinidad's Chief Executive Officer. "Towards the end of 2016, we began to see an improvement in customer demand, and while these were welcome changes, we were careful to continue to closely manage our costs and monitor the profitability of re-activated rigs. We have successfully re-crewed rigs and maintained our strong safety performance as rigs have gone back to work. We are encouraged by ongoing improvements in industry conditions and believe that Trinidad is well positioned with the right rigs, a reputation for high performing operations, and the financial flexibility to benefit from increasing customer demand in the coming year."

TRINIDAD DRILLING

INDUSTRY STATISTICS

Crude oil and natural gas prices improved during 2016, leading to an improvement in sentiment among oil and gas industry participants and a gradually increasing active rig count from historic lows. WTI crude oil prices averaged US$43.56 per barrel during the year and ended the year at US$53.72 per barrel. On average, WTI crude oil was US$49.35 per barrel in the fourth quarter, up 17% from the same quarter last year, and up 46% from the first quarter of 2016. Crude oil prices have improved over the past year as a result of lower production levels in North America and an agreement by certain OPEC and non-OPEC countries to lower crude oil output. Henry Hub natural gas prices increased throughout 2016, averaging US$2.52 per mmBtu in 2016 but ending the year at US$3.71 per mmBtu, up 63% from the end of last year. In the fourth quarter of 2016, Henry Hub natural gas averaged US$3.04 per mmBtu, up 44% from the same quarter last year, and up 53% from the first quarter of 2016.

Industry activity levels began to increase towards the end of the second quarter of 2016, reflecting improvements in commodity prices and a growing interest by oil and gas producers to increase their capital expenditure budgets. In the US, the active rig count bottomed at 391 active rigs in late April, but increased steadily to reach 634 active rigs by the end of the year. Throughout 2016, the US active rig count averaged 487 active rigs, down from 983 active rigs in 2015. Activity in Canada also began to increase in the second half of the year and in the fourth quarter of 2016, industry utilization averaged 25% up from 17% in the third quarter of 2016 and 21% in the fourth quarter of 2015. For the full year, industry activity averaged 17% in Canada, down from 23% in 2015.

	Full Year	2016				Full Year	2015			
	2016	Q4	Q3	Q2	Q1	2015	Q4	Q3	Q2	Q1
Commodity Prices										
Aeco natural gas price (CDN $ per gigajoule)	**2.16**	**3.10**	2.35	1.43	1.81	2.57	2.35	2.76	2.54	2.60
Henry Hub natural gas price (US$ per mmBtu)	**2.52**	**3.04**	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)	**38.96**	**45.62**	40.17	42.35	36.79	45.26	37.05	41.22	59.40	43.52
WTI crude oil price (US$ per barrel)	**43.56**	**49.35**	45.00	45.73	33.78	48.68	42.02	46.48	57.85	48.49
Canadian / US dollar exchange rate	**1.32**	**1.33**	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)	**487**	**565**	457	394	533	983	757	829	935	1,403
Average Trinidad active land rig count (2)	**18**	**22**	14	15	19	27	26	26	24	30
Canadian Activity										
Average industry utilization (3)	**17%**	**25%**	17%	7%	20%	23%	21%	24%	13%	35%
Average Trinidad utilization (4)	**22%**	**31%**	20%	10%	29%	29%	28%	32%	7%	46%

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

FULL YEAR 2016 HIGHLIGHTS VERSUS PRIOR-YEAR

- Revenue lowered in the current year mainly as a result of lower activity levels in the current year in each of the Canadian operations and US drilling divisions. Lower activity was slightly offset by higher early termination and standby revenue; Trinidad recorded $65.2 million of early termination and standby revenue in 2016 compared to $52.7 million in 2015.

- Operating days lowered in the current year in the Canadian and US and international drilling operations as industry conditions remained weaker in the current year and fewer rigs operated under long-term contracts.

- In the Canadian operations, dayrates lowered in the current year as a result of strong competition and a change in the active rig mix; offset slightly by higher early termination and standby revenue recorded in 2016.

- In the US and international operations, dayrates increased in the current year due to more early termination and standby revenue recorded in 2016. Adjusted for this type of revenue, dayrates decreased year over year mainly due to strong competition on pricing and a change in the active rig mix.

- Operating income decreased as a result of lower activity and lower dayrates; partly offset by higher early termination and standby revenue and cost control measures implemented across the Company. Operating income - net percentage increased over the prior year due to higher early termination and standby revenue recorded, as this revenue is recorded with minimal operating costs.

- General and administrative expenses lowered in the current year due to the Company's ongoing focus on cost control throughout 2016.

- Adjusted EBITDA decreased in the current year mainly due to less activity across each of Trinidad's Canadian and US and international operations; partly offset by higher early termination and standby revenue recognized in 2016.

- Adjusted EBITDA from investment in joint ventures increased in the current year mainly due to a stronger US/CDN foreign exchange impact in 2016.

- Net income increased in 2016 mainly due to lower impairment expense recorded in the current year, partly offset by a lower deferred income tax recovery position in 2016 compared to the prior year.

- In 2016, Trinidad lowered total long-term debt by $103.9 million and at December 31, 2016, the credit facility was undrawn.

- Despite challenging market conditions, Trinidad generated positive funds flow of $62.6 million in 2016 (2015 - $108.2 million).

- Subsequent to year-end, Trinidad announced a refinancing plan to lower its leverage and financing costs, extend its long-term debt maturity and improve its financial flexibility. As part of this plan, Trinidad completed a bought deal equity offering, and refinanced its senior notes. Refer to the liquidity and capital resources section for details.

RESULTS FROM OPERATIONS

Canadian Operations

For the years ended December 31, ($ thousands except percentage and operating data)	**2016**	2015	% Change
Operating revenue (1)	**139,504**	184,431	(24.4)
Other revenue	**895**	246	263.8
	140,399	184,677	(24.0)
Operating costs (1)	**82,742**	108,967	(24.1)
Operating income (3)	**57,657**	75,710	(23.8)
Operating income - net percentage (3)	**41.1%**	41.0%	
Operating days (3)	**6,144**	7,303	(15.9)
Drilling days (3)	**5,695**	6,738	(15.5)
Rate per operating day (CDN$) (3)	**22,492**	24,907	(9.7)
Utilization rate - operating day (3)	**23%**	31%	(25.8)
Utilization rate - drilling day (3)	**22%**	29%	(24.1)
CAODC industry average (2)	**17%**	23%	(26.1)
Number of drilling rigs at period end	**72**	72	—

(1) Operating revenue and operating costs for the year ended December 31, 2016 and 2015 exclude third party recovery and third party costs of $11.8 million and $17.4 million, respectively.
(2) CAODC industry average is based on drilling days divided by total days available.
(3) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section (beginning on page 40) of this MD&A for further details.

For the year ended December 31, 2016, Trinidad recorded operating revenue and operating income of $139.5 million and $57.7 million, respectively, a decrease of 24.4% and 23.8%, respectively, compared to the prior year. Lower activity combined with lower dayrates negatively impacted revenue generation in the current year. This was slightly offset by increased early termination and standby revenue recorded in the current year, as well as the CanElson acquisition which contributed a full year of activity in 2016 compared to approximately five months of operations in 2015.

For the year ended December 31, 2016, Trinidad recorded 6,144 operating days, compared to 7,303 operating days in the prior year. Although commodity prices began to show signs of improvement towards the middle of 2016, weak customer demand in the first half of 2016, along with wet weather conditions and slow resumption of drilling programs led to lower activity year over year. Despite these weak industry conditions, Trinidad recorded higher utilization compared to the industry average. This industry outperformance was driven largely by the Company's heavy double rigs, which generated approximately 75% of the operating days in 2016, with over half of the activity coming from rigs added through the CanElson acquisition.

Dayrates decreased by $2,415 per day in the current year compared to 2015. Dayrates lowered in 2016 as a result of a change in the active rig mix and increased competition for work. This was slightly offset by higher early termination and standby revenue recorded in 2016 to compensate Trinidad for shortfall days. As early termination and standby revenue is recorded with no operating days, it positively impacted dayrates in 2016.

Trinidad received early termination and standby revenue in the current year of $9.9 million (2015 - $4.3 million) which included early termination revenue of $1.0 million (2015 - nil) for one contract that would have expired by December 31, 2016. Excluding early termination and standby revenue, dayrates averaged $20,878 per day in 2016, down $3,442 per day from the adjusted dayrate of $24,320 per day in the prior year. The decrease in the dayrate was mainly due to lower spot market rates in the current year.

For the year ended December 31, 2016, operating income decreased compared to the prior year due to lower revenue generation as a result of the factors discussed above. Throughout 2015 and into 2016, Trinidad has closely monitored repair and maintenance expenditures, incurring expenses only as rigs returned to work. As well, the Company has worked with its suppliers to reduce costs in all aspects of its operations. Due to these cost management initiatives, as well as higher early termination and standby revenue recorded in the current period, Trinidad was able to maintain a stable operating income - net percentage in the current period compared to 2015.

Trinidad’s Canadian rig count totaled 72 rigs at December 31, 2016 and December 31, 2015.

TRINIDAD DRILLING

TDG

United States and International Operations

For the years ended December 31, ($ thousands except percentage and operating data)	**2016**	2015	% Change
Operating revenue (1)	**200,588**	297,711	(32.6)
Other revenue	**308**	606	(49.2)
	200,896	298,317	(32.7)
Operating costs (1)	**98,916**	153,434	(35.5)
Operating income (2)	**101,980**	144,883	(29.6)
Operating income - net percentage (2)	**50.8%**	48.6%	
Operating days (2)	**5,716**	9,474	(39.7)
Drilling days (2)	**4,886**	8,315	(41.2)
Rate per operating day (CDN$) (2)	**35,094**	31,241	12.3
Rate per operating day (US$) (2)	**26,518**	24,917	6.4
Utilization rate - operating day (2)	**23%**	45%	(48.9)
Utilization rate - drilling day (2)	**20%**	40%	(50.0)
Number of drilling rigs at period end	**67**	67	—

(1) Operating revenue and operating costs for the year ended December 31, 2016 and 2015 exclude third party recovery and third party costs of $5.0 million and $8.2 million, respectively.
(2) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section (beginning on page 40) of this MD&A for further details.

For the year ended December 31, 2016, Trinidad recorded operating revenue and operating income of $200.6 million and $102.0 million, respectively, a decrease of 32.6% and 29.6%, respectively, year over year. Lower activity in 2016 was the main driver responsible for decreased revenue generation in the current year. This was slightly offset by higher early termination and standby revenue, as well as a stronger US to CDN foreign exchange rate, which both positively impacted the current year.

For the year ended December 31, 2016, Trinidad recorded higher average dayrates than in the prior year mainly due to higher early termination and standby revenue recorded in 2016. In the current year, Trinidad recorded early termination and standby revenue of US$42.5 million, which included lump sum early termination revenue of US$32.5 million recorded on four rigs with an average remaining term of nine months at December 31, 2016. Excluding the impact of early termination and standby revenue, dayrates averaged US$19,081 per day in 2016, a decrease of US$1,694 per day from the adjusted dayrate of US$20,775 per day in 2015. Underlying dayrates lowered in 2016 compared to the prior year as a result of weak customer demand and an increased number of rigs operating in the spot market.

Operating income lowered in 2016 compared to the prior year mainly due to lower activity causing lower revenue generation. Throughout 2016, Trinidad lowered operating costs wherever possible, including a reduced headcount and limiting repairs and maintenance work until necessary. However, towards the end of 2016, as customer demand improved, Trinidad incurred approximately $3.8 million of costs in order to ready rigs to go back to work, including re-deployment costs to move rigs between plays.

For the year ended December 31, 2016, Trinidad recorded operating income - net percentage of 50.8% compared to 48.6% in the prior year. Operating income - net percentage increased mainly as a result of higher early termination and standby revenue recognized in the current year compared to 2015. After adjusting for early termination and standby revenue, Trinidad recorded operating income - net percentage of 32.1% compared to an adjusted rate of 38.6% in 2015. In the current year, profitability was negatively impacted mainly by lower revenue generation and higher re-activation costs, both discussed above.

In the second quarter of 2016, Trinidad's rig in the United Arab Emirates began drilling, recording 120 operating days year-to-date 2016.

Trinidad's US and international rig count totaled 67 rigs at December 31, 2016 and December 31, 2015.

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.

For the years ended December 31, ($ thousands except percentage and operating data)	**2016**	2015	% Change
Operating revenue	**131,823**	136,731	(3.6)
Other revenue	**—**	333	(100.0)
	131,823	137,064	(3.8)
Operating costs	**69,324**	78,005	(11.1)
Operating income (1)	**62,499**	59,059	5.8
Operating income - net percentage (1)	**47.4%**	43.1%	
Operating days (1)	**1,709**	2,189	(21.9)
Rate per operating day (CDN$) (1)	**74,249**	60,478	22.8
Rate per operating day (US$) (1)	**55,594**	47,732	16.5
Utilization rate - operating day (1)	**58%**	96%	(39.6)
Number of drilling rigs at period end	**8**	8	—

(1) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.

In 2016, TDI recorded operating revenue of $131.8 million, down 3.6% from the previous year. Operating revenue decreased due to lower activity in 2016 in each of the Mexico and Saudi Arabia drilling divisions, compared to the prior year. TDI recorded utilization of 58% in the current year, compared to 96% in 2015, as a result of five idle-but-contracted rigs during the year. These rigs recorded standby revenue during 2016, increasing operating income and operating income - net percentage compared to the prior year as standby revenue is recorded with minimal associated operating expenses.

In 2016, dayrates averaged US$55,594 per day, up US$7,862 per day compared to 2015, as a result of higher standby revenue in the current year. As this revenue is recorded with no operating days, it increases profitability and dayrates.

Manufacturing Operations

For the years ended December 31, ($ thousands except percentage)	2016	2015	% Change
Operating revenue (1)	**2,917**	42,044	(93.1)
Other revenue	**1**	5	(80.0)
	2,918	42,049	(93.1)
Operating costs (1)	**4,029**	41,749	(90.3)
Operating income (2)	**(1,111)**	300	(470.3)
Operating income - net percentage (2)	**(38.1)%**	0.7%	

(1) For the year ended December 31, 2016, included in operating revenue and operating costs are downstream elimination entries of $4.4 million and $4.0 million, respectively (2015 - $60.2 million and $57.1 million, respectively). These entries remove Trinidad's percentage of revenues and expenses related to the manufacturing of rigs for the TDI joint venture.

(2) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A (beginning on page 40), 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 lower activity levels. As of June 30, 2016, the restructuring of the manufacturing division was complete. As such, the manufacturing operations recorded reduced revenue generation and profitability in the current year compared to 2015.

In 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 joint venture rigs. As well, costs incurred in relation to the re-organization of this segment in 2016 negatively impacted profitability.

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. As well, in 2015, Trinidad constructed three new rig builds under long-term contracts for its US operations, as well as one new high specification rig for the Canadian operations.

GENERAL AND ADMINISTRATIVE

For the years ended December 31, ($ thousands except percentage)	**2016**	2015	% Change
General and administrative (1)	**47,335**	61,866	(23.5)
% of revenue	**13.1%**	11.2%	
Share-based payment expense	**8,434**	(208)	4,154.8
Third party recoverable costs	**1,051**	1,273	(17.4)
Total general and administrative	**56,820**	62,931	(9.7)
% of revenue	**15.7%**	11.4%	

(1) General and administrative expenses excluding share-based payment expense and third party recoverable costs. This number is discussed as “Other G&A” per the below analysis.

For the year ended December 31, 2016, Trinidad lowered Total general and administrative (G&A) expenses by 9.7% compared to the prior year, mainly due to a decrease in Other G&A of 23.5% recorded in 2016.

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 allowed the Company to lower its Other G&A expenses. This was slightly offset by a full year in 2016 of costs associated with managing an increased rig fleet due to the CanElson acquisition completed in August of 2015. These additional costs include expenses such as increased insurance, facility and rent expenses. As well, Trinidad recorded increased legal expenses in 2016 compared to the prior year.

Additionally, Trinidad 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. Other G&A expense also decreased in the current year due to lower bad debt expenses. For the year ended December 31, 2016, Trinidad recorded bad debt expense of $0.5 million, compared to bad debt expense of $2.7 million recorded in 2015.

For the year ended December 31, 2016, share-based payment expense increased over the prior year mainly due to an increase in share price and an increase in outstanding units in the current year. During the year ended December 31, 2015, Trinidad's share price decreased, causing a reduced liability with an offsetting credit to the expense, compared to an increase in Trinidad's share price of 57.5% during 2016. As well, an increased number of PSU and DSU units outstanding in 2016, due to the annual grants of each in the first quarter of 2016, caused an additional increase to the expense in the current year.

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

For the year ended December 31, 2016, G&A as a percentage of revenue increased mainly due to lower revenue generation in 2016 compared to the prior year.

DEPRECIATION, AMORTIZATION AND SALE OF ASSETS

For the years ended December 31,			
($ thousands)	**2016**	2015	% Change
Depreciation	**170,835**	117,693	45.2
Amortization	**911**	1,207	(24.5)
Gain on sale of assets	**(11,317)**	(1,571)	(620.4)

For the year ended December 31, 2016, depreciation expense increased compared to the prior year 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 US dollar versus Canadian dollar in 2016 compared to the prior year, causing higher depreciation expense on assets included in the US and international operations.

Amortization expense relates to the Company's intangible assets. The amortization expense in 2016 relates to Trinidad's engineering and design assets and to customer relationships recorded as part of the CanElson acquisition. Each of these assets were capitalized and began amortizing 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 year ended December 31, 2016, Trinidad recognized a gain on sale of assets of $11.3 million. The gain recorded in the current period 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 in order to improve efficiencies and increase cash flows. The gain recorded in the prior year mainly related to the sale of underutilized non-core assets, including rig components and property that was being underutilized by the Company.

FOREIGN EXCHANGE

For the years ended December 31,			
($ thousands except percentage)	**2016**	2015	% Change
Foreign exchange	**(3,374)**	7,172	(147.0)
% of revenue	**(0.9)%**	1.3%	

For the year ended December 31, 2016, Trinidad recorded a foreign exchange gain of $3.4 million compared to a loss of $7.2 million in 2015. The majority of the foreign exchange gains and losses recorded in both years were the result of the change in foreign currency fluctuations on Trinidad's outstanding inter-company balances. During 2015 and early 2016, Trinidad had significant inter-company balances outstanding between the Canadian and US and international operations. Large swings in the US foreign exchange rate compared to the Canadian dollar while these balances were outstanding caused large swings in unrealized foreign exchange.

The Company utilizes a net investment hedge on a portion of its foreign subsidiaries against its US dollar denominated Senior 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 the years ended December 31, ($ thousands except percentage)	**2016**	2015	% Change
Impairment of property and equipment	—	205,628	(100.0)%
% of revenue	**0%**	37.3%	
Impairment of goodwill	—	111,847	(100.0)%
% of revenue	**0%**	20.3%	

For the year ended December 31, 2016, external indicators of impairment continued to exist mainly related to industry factors and market capitalization rates. However, each of these indicators were the same as at December 31, 2015, and have subsequently improved since the prior year end. As such, at December 31, 2016, no new impairment indicators were identified on wholly owned assets that would indicate an impairment test was required; therefore, no impairment expense was recorded.

For the year ended December 31, 2015, due to a decline in commodity prices and a more pessimistic view of short-term market conditions, Trinidad recorded total impairment expense related to property and equipment of $205.6 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, and 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 $101.9 million. This amount partially related to the decommissioning of five rigs, which resulted in an impairment of $9.7 million, as well as impairment of $65.3 million related to capital inventory and other equipment and $26.9 million related to barge rig assets. Refer to the annual audited consolidated financial statements for the year ended December 31, 2015 for further details.

Under IFRS, Trinidad is required to assess goodwill at least annually. During the year ended December 31, 2016, Trinidad completed an analysis of the discounted cash flows on each relevant segment that Trinidad has allocated goodwill assets. Based on this analysis, cash flows exceeded the value of each segment, including the allocated goodwill, in excess that a reasonable change in the assumptions used would not result in impairment. Refer to the audited annual consolidated financial statements for the year ended December 31, 2016 for details of the assumptions used.

At September 30, 2015, in response to the further deterioration of industry conditions at that time, 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 US 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.

TRINIDAD DRILLING TDG

FINANCE AND TRANSACTION COSTS

For the years ended December 31, ($ thousands except percentage)	2016	2015	% Change
Interest on long-term debt	**49,907**	47,844	4.3
Accretion of Senior Notes	**611**	536	14.0
Deferred financing costs on long-term debt	**5,306**	1,820	191.5
Finance costs related to long-term debt	**55,824**	50,200	11.2
Transaction costs	**—**	5,651	(100.0)
Finance and transaction costs	**55,824**	55,851	0.0
% of revenue	**15.4%**	10.1%	

For the year ended December 31, 2016, Trinidad recorded finance and transaction costs in-line with the prior year. Lower transaction costs, offset by higher finance costs related to long-term debt recorded in 2016, caused overall finance and transaction costs to remain consistent year over year.

Trinidad recorded higher interest on long-term debt in the current year, compared to 2015. Interest on long-term debt is largely driven by the interest expense related to the Senior Notes which are held and paid in US funds. The USD/CAD foreign exchange rates averaged approximately 1.3284 in 2016, compared to 1.2605 in 2015, causing higher interest expense on these US dollar denominated notes. The foreign exchange impact was slightly offset by a decrease in interest expense related to the revolving facilities, which were less utilized during 2016 compared to the prior year.

Deferred financing costs on long-term debt increased in the current period compared to the prior year. Subsequent to year end, Trinidad announced a cash tender offer to purchase any and all of the Company's outstanding 7.875% senior unsecured notes due in 2019 (the "2019 Notes") and a redemption of any of the 2019 notes not tendered. Due to the tender and redemption of the senior notes, all related unamortized debt issuance costs were accelerated, resulting in an increase in the expense recorded in 2016.

Trinidad recorded transaction costs of $5.7 million in 2015 related to expenses incurred in connection with the CanElson acquisition, compared to nil in 2016.

Refer to the Liquidity and Capital Resources section for further details on the debt financing agreement and amendments made to the credit facility.

INCOME TAXES

For the years ended December 31, ($ thousands except percentage)	2016	2015	% Change
Current	**(871)**	2,757	(131.6)
Deferred	**(33,289)**	(124,533)	73.3
	(34,160)	(121,776)	71.9
% of revenue	**(9.4)%**	(22.1)%	

For the year ended December 31, 2016, Trinidad recorded current tax recovery of $0.9 million, a decrease from current tax expense of $2.8 million recorded in 2015. The change in current tax is due to a recovery in the manufacturing operations along with reduced taxability in the US and international operations.

For the year ended December 31, 2016, deferred tax recovery decreased to $33.3 million compared to a recovery of $124.5 million recorded in the prior year. The decrease is largely due to the tax effect of the impairments recognized in 2015 in each of the Canadian and US and international segments. No impairments were recognized in 2016.

NET (LOSS) AND CASH FLOWS

For the years ended December 31, ($ thousands except per share data)	2016	2015	% Change
Net (loss) [1]	**(52,546)**	(218,350)	75.9
Per share (diluted) [1]	**(0.24)**	(1.30)	81.5
Cash flow provided by operating activities	**30,310**	215,462	(85.9)
Per share (diluted)	**0.14**	1.28	(89.1)
Funds flow[2]	**62,618**	108,219	(42.1)
Per share (diluted)	**0.28**	0.64	(56.3)

(1) 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.
(2) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.

For the year ended December 31, 2016, net income increased compared to the prior year mainly due to lower impairment expenses related to property and equipment and goodwill recorded in 2016. As well, Trinidad recorded increased net income due to a larger gain on sale of assets, a gain from investment in joint ventures compared to a loss recorded in the prior year, a gain related to the fair value adjustment on the non-controlling interest liability and lower G&A expenses in 2016. The above was slightly offset by lower operating income, a lower deferred income tax recovery and higher depreciation expense recorded in 2016.

Despite challenging market conditions, Trinidad generated positive cash flow provided by operating activities and funds flow for the year ended December 31, 2016. However, due to a decline in activity across each of the Canadian and US and international drilling operations in 2016, each decreased compared to the prior year.

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

FINANCIAL HIGHLIGHTS – QUARTERLY ANALYSIS

	2016				2015			
($ millions except per share data and operating data)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**93.0**	66.9	94.5	107.7	138.0	124.3	95.2	194.4
Operating income [(1)]	**28.2**	23.0	61.7	46.7	56.0	52.0	41.9	72.3
Operating income percentage [(1)]	**30.3%**	34.3%	65.3%	43.4%	40.6%	41.8%	44.0%	37.2%
Operating income - net percentage [(1)]	**32.3%**	35.9%	66.8%	45.4%	42.5%	43.9%	46.3%	38.5%
Net (loss) income [(2)]	**(12.1)**	(36.1)	(16.6)	11.1	(141.3)	(87.6)	(1.5)	12.1
Adjustments for:								
Depreciation and amortization	**43.7**	42.3	42.5	43.2	49.0	26.6	19.7	23.6
Foreign exchange	**(0.7)**	(0.3)	0.1	(2.4)	(2.3)	3.3	—	6.2
(Gain) loss on sale of assets	**(0.7)**	(8.6)	(0.7)	(1.2)	0.5	(0.6)	(0.4)	(1.1)
Impairment of property and equipment	**—**	—	—	—	178.7	26.9	—	—
Impairment of goodwill	**—**	—	—	—	—	111.8	—	—
(Gain) loss from investment in joint ventures	**(19.7)**	18.4	9.7	(21.4)	6.2	(2.8)	(0.6)	(1.3)
Finance and transaction costs	**16.0**	12.3	13.3	14.1	13.7	17.9	12.9	11.4
Non-controlling interest fair value adjustment	**(3.5)**	(5.9)	—	—	—	—	—	—
Income taxes	**(9.9)**	(10.3)	(3.5)	(10.4)	(66.7)	(56.1)	(3.4)	4.4
Other expense	**4.6**	1.8	4.5	0.9	0.8	(1.9)	1.4	2.9
Income taxes paid	**(0.1)**	(0.2)	(0.9)	(0.9)	(5.8)	(1.1)	(2.0)	(1.6)
Income taxes recovered	**0.7**	—	—	0.1	—	2.9	0.1	0.2
Interest paid	**(0.7)**	(24.0)	(1.5)	(24.4)	(2.2)	(22.9)	(1.1)	(20.7)
Funds flow [(1)]	**17.6**	(10.6)	46.9	8.7	30.6	16.4	25.1	36.1
Per share (diluted) [(3)]	**0.08**	(0.05)	0.21	0.04	0.14	0.09	0.19	0.27
Adjusted EBITDA [(1)]	**23.8**	18.0	57.0	44.2	47.0	45.0	34.7	60.0
Per share (diluted) [(3)]	**0.11**	0.08	0.26	0.20	0.21	0.25	0.26	0.45
Net (loss) income attributable to Trinidad [(4)]	**(11.8)**	(35.8)	(16.3)	11.3	(141.5)	(87.5)	(1.5)	12.1
Per share (diluted) [(3)] [(4)]	**(0.05)**	(0.16)	(0.07)	0.05	(0.64)	(0.48)	(0.01)	0.09

(1) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.
(2) Net (loss) income used in the consolidated statement of cash flows is total net (loss) income before adjustments for non-controlling interest amounts.
(3) Diluted shares include the weighted average number of shares outstanding over the period and the dilutive impact, if any, of the number of shares issuable pursuant to the Incentive Option Plan.
(4) Net (loss) income is net (loss) income attributable to shareholders of Trinidad. Net (loss) income per share is calculated as net (loss) income attributable to shareholders of Trinidad divided by the weighted average number of common shares outstanding. Both are adjusted for dilutive factors.

OPERATING HIGHLIGHTS – QUARTERLY ANALYSIS

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating days (1)								
Canada	**2,067**	1,411	665	2,001	2,471	2,109	380	2,343
United States and International	**1,761**	1,307	915	1,733	2,378	2,199	2,202	2,695
Rate per operating day (1)								
Canada (CDN$)	**20,118**	18,856	31,138	24,635	24,079	23,695	31,731	25,764
United States and International (CDN$)	**25,472**	27,975	76,220	28,529	28,171	30,223	33,184	33,194
United States and International (US$)	**19,191**	21,557	59,070	20,438	21,209	23,582	26,755	27,778
Utilization rate - operating day (1)								
Canada	**31%**	21%	10%	31%	31%	34%	8%	50%
United States and International	**29%**	21%	15%	29%	36%	40%	50%	61%
Number of drilling rigs at period end (3)								
Canada	**72**	72	72	72	72	82	54	54
United States and International	**67**	67	67	67	67	72	49	47
TDI Joint Venture Operations (2)								
Operating days (1)	**284**	274	461	690	668	595	516	410
Rate per operating day (CDN$) (1)	**86,951**	87,127	72,773	64,894	60,619	59,609	60,555	61,412
Rate per operating day (US$) (1)	**65,529**	67,133	55,962	46,676	45,898	46,591	48,959	50,825
Utilization rate - operating day (1)	**39%**	37%	63%	95%	97%	99%	95%	94%
Number of drilling rigs at period end (3)	**8**	8	8	8	8	8	8	8

(1) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.
(2) Trinidad is party to a joint venture with a wholly owned subsidiary of Halliburton (TDI). These rigs are owned by the joint venture.
(3) Refer to the Results from Operations section for details on changes to the rig count.

An assessment or comparison of Trinidad's quarterly results, at any given time, requires consideration of crude oil and natural gas commodity prices, geographic location and seasonality. Commodity prices ultimately drive the level of exploration and development activities carried out by the Company's customers and the associated demand for the oilfield services provided by Trinidad.

2015 Analysis

In 2015, Trinidad's Canadian and US operations were negatively impacted by weakened commodity prices and the resulting pull back in spending by oil and gas exploration and production companies. These soft market conditions led to lower activity levels and utilization in Canada and the US, and downward pressure on dayrates and profitability. In response, Trinidad's management instituted a number of cost containment initiatives that, combined with early termination and standby revenue received, helped to maintain operating margins. Trinidad's manufacturing division completed work on a training rig for Halliburton, the Company's joint venture partner, and delivered the remaining two rigs to the joint venture in Mexico. In the third quarter of 2015, Trinidad completed the CanElson acquisition, acquiring 28 rigs in Canada, 21 rigs in the United States and four joint venture rigs in Mexico (two drilling and two service rigs). Profitability was impacted by an impairment reserve recorded on the Company's barge assets and goodwill in the third quarter of 2015 and an impairment recorded on Trinidad's fixed assets at December 31, 2015.

2016 Analysis

In the first six months of 2016, Trinidad's Canadian and US and international operations continued to be negatively impacted by weak commodity prices causing downward pressure on dayrates and decreased activity, compared to the prior year. In the first two quarters of 2016, the Company was able to maintain a strong operating income - net percentage as a result of early termination and standby revenue recorded during the year, as well as cost cutting initiatives and lower manufacturing activity. In the third quarter of 2016, improving commodity prices drove increased activity levels; however, ongoing competition caused downward pressure on dayrates and negatively impacted profitability. In the fourth quarter of 2016, Trinidad continued to record improved activity in each of the Canadian and US drilling divisions compared to prior periods in 2016. Profitability was negatively impacted in the fourth quarter of 2016 due to lower early termination and standby revenue, as well as continued competition affecting dayrates. In addition, Adjusted EBITDA from Trinidad's TDI joint venture increased in 2016, positively impacting results in the current year.

FOURTH QUARTER 2016 HIGHLIGHTS VERSUS PRIOR-YEAR

- Revenue lowered in the current quarter mainly as a result of lower activity levels in 2016 in each of the Canadian operations and US and international operations. As well, revenue generation was negatively impacted by lower early termination and standby revenue; Trinidad recorded $2.3 million of early termination and standby revenue in the fourth quarter of 2016 compared to $8.8 million in the same period in 2015.

- Trinidad recorded fewer operating days in the current quarter in each of its drilling operations, compared to the same quarter last year. Despite improved commodity prices in the fourth quarter, customers were cautious not to increase drilling programs too quickly, causing overall activity levels to improve slowly; but, remain at lower levels compared to the prior year.

- In the Canadian and US and international operations, dayrates lowered in the current quarter as a result of strong competition, a change in the active rig mix and lower early termination and standby revenue recorded in 2016 when compared to the same quarter last year.

- Operating income and operating income - net percentage decreased in the current quarter as a result of lower revenue generation, due to lower activity levels, lower dayrates and less early termination and standby revenue recorded in 2016.

- General and administrative expense lowered in the current quarter due to the Company's ongoing focus on cost control throughout 2016.

- Adjusted EBITDA decreased in the current quarter mainly due to the factors discussed above in operating income.

- Adjusted EBITDA from investment in joint ventures decreased in the current quarter mainly due to lower activity in TDI's Mexican operations.

- Net income increased in the current quarter mainly due to lower impairment expense recorded in 2016 offset by a lower deferred income tax recovery position in the current quarter compared to the prior year.

- Despite challenging market conditions, Trinidad generated positive funds flow of $17.6 million in the fourth quarter of 2016 (2015 - $30.6 million).

RESULTS FROM OPERATIONS

Canadian Operations

For the three months ended December 31, ($ thousands except percentage data)	**2016**	2015	% Change
Operating revenue (1)	**41,601**	61,019	(31.8)
Other revenue	**404**	31	1,203.2
	42,005	61,050	(31.2)
Operating costs (1)	**26,272**	35,766	(26.5)
Operating income (2)	**15,733**	25,284	(37.8)
Operating income - net percentage (2)	**37.5%**	41.4%	

(1) Operating revenue and operating costs for the three months ended December 31, 2016 and 2015 exclude third party recovery and third party costs of $4.2 million and $5.0 million, respectively.
(2) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section (beginning on page 40) of this MD&A for further details.

During the fourth quarter of 2016, Trinidad recorded operating revenue and operating income of $41.6 million and $15.7 million, respectively, a decrease of 31.8% and 37.8%, respectively, compared to the fourth quarter of 2015. Operating revenue and operating income decreased in the current quarter mainly due to lower activity and lower average dayrates compared to the fourth quarter of 2015. While customer demand increased during the fourth quarter of 2016, conditions did not improve to the extent to drive stronger year-over-year results.

Dayrates in the fourth quarter of 2016 decreased by $3,961 per day, compared to the fourth quarter of 2015. Dayrates lowered mainly as result of a change in the active rig mix and increased competition for work. In addition, dayrates in the fourth quarter of 2016 and 2015 were impacted by early termination and standby revenue received to compensate Trinidad for shortfall days. Trinidad received higher early termination and standby revenue in the fourth quarter of 2015, which increased the average dayrate as this revenue is recorded with no operating days.

Trinidad received early termination and standby revenue in the current quarter of $0.2 million, compared to $2.8 million recorded in the same quarter of 2015. Excluding early termination and standby revenue, dayrates averaged $20,011 per day in the fourth quarter of 2016, down $2,937 per day from the prior comparable adjusted period. The early termination and standby revenue recorded in the current quarter mainly related to one rig with a contract that would have expired by December 31, 2016 (2015 - 3 rigs with contracts that would have expired by December 31, 2015). An overall change in rig mix, combined with increased competition on pricing, caused lower adjusted dayrates in the fourth quarter of 2016, compared to the same quarter last year.

Operating income decreased in the current quarter compared to the prior year largely due to lower activity, lower dayrates, and an increased contribution from lower specification rigs. This was slightly offset by cost mitigation strategies Trinidad had in place. Throughout 2015 and into 2016, Trinidad closely monitored repair and maintenance expenditures, incurring expenses only as rigs return to work. As well, the Company worked with its suppliers to reduce costs in all aspects of its operations.

Operating income - net percentage decreased in the current quarter when compared to the same quarter last year as a result of the factors affecting operating income discussed above. Adjusted for early termination and standby revenues recorded, Trinidad recorded a slightly lower operating income - net percentage of 37.1% compared to 38.6% in 2015.

Fourth quarter of 2016 versus third quarter of 2016

Improving industry conditions drove stronger results in the fourth quarter of 2016 compared to the third quarter of 2016. Operating revenue and operating income increased in the fourth quarter of 2016 by $15.0 million and $7.8 million, respectively, due to higher activity in the current quarter. In the third quarter of 2016, after spring break-up, Trinidad's customers were reluctant to ramp up development plans, and activity in Canada remained below historical norms. As commodity prices continued to gain strength into the fourth quarter, activity picked up and Trinidad recorded increased operating days. Utilization averaged 31% in the fourth quarter of 2016 compared to 21% in the third quarter. Dayrates also improved in the fourth quarter of 2016, averaging $20,118 per day compared to $18,856 per day in the third quarter due to an increase in seasonal rentals in the current quarter.

United States and International Operations

For the three months ended December 31,			
($ thousands except percentage data)	**2016**	2015	% Change
Operating revenue [1]	**44,842**	66,967	(33.0)
Other revenue	**42**	134	(68.7)
	44,884	67,101	(33.1)
Operating costs [1]	**32,535**	34,820	(6.6)
Operating income [2]	**12,349**	32,281	(61.7)
Operating income - net percentage [2]	**27.5%**	48.1%	

(1) Operating revenue and operating costs for the three months ended December 31, 2016 and 2015 exclude third party recovery and third party costs of $1.8 million and $1.7 million, respectively.

(2) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section (beginning on page 40) of this MD&A for further details.

In the fourth quarter of 2016, Trinidad recorded operating revenue and operating income of $44.8 million and $12.3 million, respectively, a decrease of 33.0% and 61.7%, respectively, from the fourth quarter of 2015. Revenue declined mainly due to lower activity and lower dayrates recorded in the fourth quarter of 2016. As well, lower early termination and standby revenue recorded in the current quarter negatively impacted overall revenue generation. Profitability was further impacted by costs associated with readying rigs to go back to work in 2017, mainly related to transportation costs to redeploy rigs to new plays.

While customer demand increased during the fourth quarter of 2016, conditions did not improve to the extent to drive stronger year-over-year results. Trinidad recorded 1,761 operating days in the fourth quarter of 2016, compared to 2,378 operating days in the fourth quarter of 2015.

Dayrates lowered in the current quarter compared to the same quarter last year due to lower early termination revenue and an increased number of rigs operating in the spot market. During the current quarter, Trinidad received standby revenue of US$1.6 million, compared to early termination and standby revenue of US$4.6 million in the prior year (of which US$1.0 million related to early termination lump sum payments). Excluding the impact of early termination and standby revenue, dayrates averaged US$18,290 per day in the current quarter compared to US$19,289 per day in 2015. The reduction in dayrates was mainly due to a greater percentage of rigs working in the spot market at highly competitive pricing compared to the prior year when more rigs were under long-term contracts.

Operating income - net percentage decreased in the fourth quarter of 2016, compared to the prior year, driven by lower revenue generation, as discussed above. In addition, Trinidad incurred costs of approximately $3.8 million related to transportation and start-up expenses as rigs were readied to return to work.

Fourth quarter of 2016 versus third quarter of 2016

When compared to the third quarter of 2016, Trinidad's operating revenue increased by $8.3 million in the fourth quarter of 2016, as a result of higher activity levels. Despite higher operating days in the current quarter, operating income and operating income - net percentage lowered, compared to the third quarter, as a result of rig re-activation costs discussed above. Dayrates in the fourth quarter of 2016 averaged US$19,191 per day, down from US$21,557 per day in the third quarter. Dayrates lowered in the fourth quarter compared to the previous quarter, as a result of less early termination and standby revenue received in the current period and a higher number of rigs working in the spot market as additional rigs returned to work.

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.

For the three months ended December 31, ($ thousands except percentage data)	**2016**	2015	% Change
Operating revenue	**25,580**	42,122	(39.3)
Other revenue	**—**	(111)	(100.0)
	25,580	42,011	(39.1)
Operating costs	**11,692**	25,385	(53.9)
Operating income [(1)]	**13,888**	16,626	(16.5)
Operating income - net percentage [(1)]	**54.3%**	39.6%	

(1) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.

Operating revenue and operating income lowered in the fourth quarter of 2016 compared to the same quarter last year, mainly due to lower activity levels in 2016. Operating days lowered in the current quarter as a result of one idle-but-contracted rig in Saudi Arabia and four in Mexico, compared to all eight rigs active in the fourth quarter of 2015. Dayrates and operating income - net percentage increased in the current quarter over the fourth quarter of 2015 due to more standby revenue recorded in 2016. As this revenue is recorded with minimal operating costs and no operating days, it positively impacts profitability and the dayrate.

Fourth quarter of 2016 versus third quarter of 2016

Compared to the third quarter of 2016, TDI recorded slightly higher operating days and operating income in the fourth quarter as one Mexican rig recorded move days during the fourth quarter in order to relocate to start drilling in 2017. Operating income - net percentage increased in the fourth quarter due to higher profitability in TDI's Mexican operations.

Manufacturing Operations

For the three months ended December 31, ($ thousands except percentage)	2016	2015	% Change
Operating revenue (1)	—	2,995	(100.0)
Other revenue	—	1	(100.0)
	—	2,996	(100.0)
Operating costs (1)	—	4,763	(100.0)
Operating income (2)	—	(1,767)	(100.0)
Operating income - net percentage (2)	—%	(59.0)%	

(1) For the three months ended December 31, 2016, included in operating revenue and operating costs are downstream elimination entries of nil and nil, respectively (2015 - $5.6 million and $5.1 million, respectively). These entries remove Trinidad's percentage of profits related to the manufacturing of rigs for the TDI joint venture.

(2) See Non-GAAP Measures Definitions and Additional GAAP Measures Definitions section of this MD&A (beginning on page 40), 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. As of June 30, 2016, the restructuring of the manufacturing division was complete; therefore, there were no revenue or cost items recorded in the fourth quarter of 2016.

In the fourth quarter of 2015, Trinidad's manufacturing division completed upgrade work for the TDI joint venture operations.

LIQUIDITY AND CAPITAL RESOURCES

As at ($ thousands)	**December 31, 2016**	December 31, 2015	$ Change
Working capital (1)	**48,121**	61,372	(13,251)
Limited partnership loans	**1,959**	2,609	(650)
Senior Notes	**602,758**	620,661	(17,903)
Credit facility	**—**	89,873	(89,873)
	604,717	713,143	(108,426)
Less: unamortized debt issue costs	**(1,701)**	(6,223)	4,522
Total long-term debt	**603,016**	706,920	(103,904)
Total long-term debt as a percentage of assets	**30.4%**	31.6%	
Total assets	**1,982,076**	2,236,200	(254,124)
Total long-term liabilities	**657,602**	783,254	(125,652)
Total long-term liabilities as a percentage of assets	**33.2%**	35.0%	

For the years ended December 31,	**2016**	2015	$ Change
Cash flow provided by operating activities	**30,310**	215,462	(185,152)
Cash flow provided (used) by investing activities	**23,941**	(269,587)	293,528
Cash flow (used) provided by financing activities	**(92,077)**	34,534	(126,611)

(1) See Non-GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.

For the year end December 31, 2016, working capital decreased by $13.3 million when compared to December 31, 2015, due to a decrease in current assets of $64.9 million offset by a decrease in current liabilities of $51.7 million.

Current assets decreased in the year mainly due to a reduction in cash and accounts receivable at December 31, 2016 compared to the prior year. Cash decreased in the current year mainly due to lower activity and reduced revenue generation as well as repayments made on long-term debt in 2016, partly offset by a distribution from the TDI joint venture received in early 2016. Accounts receivable decreased as a result of lower activity in each of the wholly-owned drilling divisions in 2016. As well, prepaid expenses decreased mainly due to the recognition of prepaid insurance expense during the period and assets held for sale decreased due to the disposal of the property classified as assets held for sale at December 31, 2015. The impact of these factors was slightly offset by an increase in inventory due to parts received in Trinidad's US and international division.

Current liabilities decreased in the period mainly due to a reduction in accounts payable and accrued liabilities and a reduction in deferred revenue. The reduction in accounts payable and accrued liabilities was a result of lower activity across each of the Canadian and the US and international operations as well as lower activity in Trinidad's manufacturing division. The decrease in deferred revenue was due to the majority of the balance outstanding at December 31, 2015 being fully recognized to revenue during the second quarter of 2016. The revenue recorded related to deferred early termination revenue for contracts in the US and international 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 payments made in 2016.

Trinidad's total long-term debt balance at December 31, 2016 decreased by $103.9 million compared to December 31, 2015. This decrease was largely due to no amounts being drawn on the Canadian or US revolving facilities at December 31, 2016 compared to December 31, 2015 where $65.0 million and US$18.0 million, respectively, were drawn. Additionally, the value of the Senior Notes decreased as a result of foreign currency fluctuations as the Canadian dollar strengthened in value compared to the US dollar at December 31, 2016, closing at 1.3427 compared to 1.3840 at December 31, 2015. As these notes are held in US funds, the Senior Notes are translated at each period end, and as such, their aggregate value fluctuates with the US to Canadian exchange rates.

Trinidad has designated the Senior Notes as a net investment hedge of the US and international operations. As a result, unrealized gains and losses on the US dollar Senior 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.

Subsequent to year end, Trinidad announced a refinancing plan to lower its leverage and financing costs, extend its long-term debt maturity and improve its financial flexibility. Refer to the Debt Reduction Transactions for further details.

Amendments to Credit Facility and Debt Covenants

On December 14, 2015, Trinidad announced that it had amended its credit facility, choosing to reduce the size of its credit facility in order to lower standby fees. On June 24, 2016, Trinidad announced that it had further amended its credit facility, choosing to reduce the size of its credit facility once again, as well as adjust required covenants in order to allow the Company more financial flexibility.

The amended credit facility includes a Canadian revolving facility of $100.0 million (previously $150.0 million) and a US revolving facility of US$100.0 million (previously US$150.0 million) which matures in December 2018. The Company's syndicated loan facility is subject to two financial covenants (previously three), The following summarizes the changes effective June 24, 2016:

	Current Amended Credit Agreement		Previous Amended Credit Agreement	
Credit Facility Covenants				
Senior Debt/ Bank EBITDA (1) (2)	Max of 2.5x	Apr 1, 2016 onwards	Max of 3.0x	
Total Debt/ Bank EBITDA (1)	Permanently eliminated		Max of 6.0x Max of 5.5x Max of 5.0x Max of 4.0x	Jan 01 2016 to Mar 31 2017 Apr 01 2017 to Jun 30 2017 Jul 01 2017 to Dec 31 2017 Jan 01 2018 onwards
Bank EBITDA(1) / Cash Interest Expense	Min of 1.5x	Apr 1, 2016 to Mar 31, 2018	Min of 2.0x	Jan 01 2016 to Dec 31 2017
	Min of 2.5x	Apr 1, 2018 onwards	Min of 2.5x	Jan 01 2018 onwards
Dividend Restriction	No dividends may be paid from Apr 1, 2016 to Mar 31, 2018		Max of $0.01 per share per quarter if Total Debt / Bank EBITDA is greater than 5.0 times	

(1) Please see the Non-GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.
(2) The ability to step the covenant up by 0.5 times for the two quarters following a material acquisition has been removed.
Note - Restricted payments remain unchanged at a maximum of 60% of last 12 months' excess cash flow (as defined in the credit agreement).

Additional changes to the Company's credit agreement are included in the amending agreement, a copy of which is filed on SEDAR.

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. At December 31, 2016, Trinidad is in compliance with all of the covenants of the credit facility.

Subsequent to year end, as part of Trinidad's refinancing plan, Trinidad amended its existing revolving credit facility. The amendment related to the use of up to US$50 million of the credit facility to repurchase or redeem the 2019 Notes and to make other related amendments to reflect and allow for the issuance of the 2025 Notes.

Current financial performance is within the financial ratio covenants under the revolving credit facility as reflected in the table below:

RATIO	**December 31, 2016**	December 31, 2015	THRESHOLD
Senior Debt to Bank EBITDA (1)	**(0.07):1**	0.21:1	2.50:1 maximum
Bank EBITDA to Cash Interest Expense (1)	**2.61:1**	3.49:1	1.50:1 minimum

(1) Please see the Non-GAAP Measures Definitions section of this MD&A (beginning on page 40) for further details.

Bank EBITDA does not include adjusted EBITDA from investment in the joint ventures. Dividends and distributions paid to Trinidad from the joint ventures are eligible for inclusion in Bank EBITDA in the period that payment occurs. In the first quarter of 2016, the TDI joint venture distributed approximately $36.0 million, of which $21.5 million was paid to Trinidad. The TDI joint venture expects to continue to distribute cash back to Trinidad in future periods. The amount and timing of these distributions will depend on the profitability of the joint venture and the working capital and capital expenditure needs within the joint venture.

Senior Notes

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 the net fair market value of other restricted assets added for equity. At December 31, 2016, Trinidad has a significant positive restricted payment basket available.

Readers are cautioned that the ratios noted above do not have standardized meanings under IFRS.

Debt Reduction Transactions

Subsequent to year-end, Trinidad announced a refinancing plan to lower its leverage and financing costs, extend its long-term debt maturity and improve its financial flexibility. As part of this plan, Trinidad issued a total of 47,460,317 common shares for gross proceeds of approximately $149.5 million through a bought deal financing agreement. In addition, Trinidad announced a cash tender offer to purchase any and all of the Company's outstanding 7.875% senior unsecured notes due in 2019 (2019 Notes), of which US$450 million aggregate principal amount was outstanding at December 31, 2016. As well, all remaining notes due in 2019 that were not validly tendered will be redeemed on March 10, 2017, at their principal amount plus any accrued and unpaid interest.

Additionally, as part of the above refinancing plan, Trinidad also completed a private offering of US$350 million of senior unsecured notes due in 2025 (2025 Notes). These notes accrue at a rate of 6.625% per annum payable semi-annually.

Capital Resources

Trinidad’s objectives when managing capital include safeguarding the Company’s ability to continue to provide returns for shareholders; as well as applying capital efficiencies to achieve financial objectives while focusing on operating within generated cash flows if possible. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may repurchase or issue new shares, sell assets, reduce indebtedness or take on additional debt (all changes to capital structure noted below).

2016 Capital Expenditures

Capital expenditure for the years ended December 31, 2016 and 2015 is disclosed below:

For the years ended December 31,		
($ thousands)	**2016**	2015
New builds	**—**	61,564
Capital upgrades and enhancements	**23,549**	29,009
Maintenance and infrastructure	**6,288**	12,894
Capital spares inventory	**14,489**	36,580
Total capital expenditures for Trinidad	**44,326**	140,047
TDI joint venture capital expenditures (Trinidad's 60% share)	**5,978**	43,010
Total capital expenditures adjusted for non-cash items - Trinidad and TDI joint venture	**50,304**	183,057

During the year ended December 31, 2016, Trinidad spent $44.3 million on capital expenditures, compared to $140.0 million in the prior year. Capital expenditures mainly related to upgrading equipment to get rigs ready to work and costs for additional inventory items.

In addition to the amounts spent on Trinidad's capital, the Company spent $6.0 million related to its portion of capital spending for the TDI joint venture. The majority of the capital spent in 2016 for the joint venture related to upgrading rigs and investing in capital inventory items.

OUTLOOK

To date in 2017, industry conditions have continued to improve in both Canada and the US, and activity levels have increased from the fourth quarter of 2016. In Canada, activity remains focused in the Montney, Deep Basin, Duvernay and in parts of Saskatchewan. In the US, demand is predominantly centered in the Permian Basin, where just over 80% of the Company's active fleet is operating. In addition to the Permian, Trinidad is also seeing growing interest from customers in the Eagle Ford, Haynesville and the SCOOP/STACK plays. Growing customer interest and improving industry conditions are beginning to drive increased dayrates and requests for longer duration contracts across the Company's operations.

To date, Trinidad has successfully crewed rigs as they have returned to work. Since the low in the second quarter of 2016, the Company has increased its employee count by 90%, or approximately 850 employees, the majority of which are returning employees. Trinidad remains committed to providing safe, efficient operations for its customers and its crews. The Company's ongoing industry-leading safety statistics and strong operational performance demonstrate its ability to train and recruit some of the best people in the industry.

Trinidad currently has 35 rigs or 49% of its Canadian fleet working and 29 rigs or 43% of its US and international fleet working. In the Company’s Joint Venture operations, three rigs in Saudi Arabia and one rig in Mexico are operating; one rig in Saudi Arabia and one rig in Mexico are receiving standby revenue. In early 2017, the contracts on two rigs in Mexico were terminated and TDI expects to receive approximately US$18 million (US $10.8 million at Trinidad's 60% joint venture ownership) in early termination payments for these rigs. Trinidad is currently pursuing several opportunities to put these and other rigs to work in existing and new international locations, both through the joint venture and independently.

As activity levels increase, Trinidad is continuing to carefully monitor costs in its operations and in its offices, retaining efficiency gains where possible. Other G&A expenses are expected to remain in line with 2016 and total between $45 million and $50 million in 2017.

Trinidad expects to spend $40 million in capital expenditures in 2017, with $18 million directed to maintenance capital and $22 million directed to upgrades of existing equipment. Included in this upgrade program are the addition of 7,500 PSI circulating systems, additional mud pumps, high-torque top drives and bi-fuel kits. Trinidad will continue to monitor customer demand and requests for upgraded equipment and may choose to expand its upgrade program if sufficient demand exists and industry conditions support the additional expenditures.

Over the past few months, in response to improving industry conditions, Trinidad has added to its contract base. Trinidad currently has 27 rigs or 18% of its fleet under long-term contracts, with an average term remaining of 1.2 years. There are 12 contracts with expiration dates in 2017; however, if industry conditions continue to improve Trinidad expects to be in a position to renew or add to its contract base over the coming year. The Company is carefully balancing the revenue stability provided by long-term contracts with its exposure to the spot market and improving industry conditions. A number of the Company's long-term contracts provide upside exposure, with the ability to earn higher dayrates through pricing tied to benchmark commodity prices, performance bonuses for specific targets met or exceeded, and pricing that increases as contract terms are extended.

In early 2017, Trinidad completed a number of transactions to improve its financial flexibility and lower its leverage, positioning the Company well to take advantage of improving industry conditions. The Company refinanced its US$450 million senior notes (7.875%) that were due in 2019 with the proceeds of a $149.5 million equity offering and a new US$350 million senior note (6.625%) due in 2025. The effect of these transactions is expected to reduce Trinidad's financing costs by approximately US$12.3 million per year, lower overall debt levels, and has extended the maturity of the Company's long-term debt.

Trinidad is encouraged by improving customer demand, growing activity levels and slowly increasing dayrates; however, the Company continues to carefully manage its operations. Trinidad is closely monitoring its costs, including repair and maintenance costs, operating costs and administration expenses, to ensure re-activated rigs contribute positively to the Company's profitability. With its improved financial flexibility, high performance fleet and skilled crews, Trinidad is well positioned to benefit from improving industry conditions.

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.

	Payments Due by Period				
As at December 31, 2016		**Less than**	**1 - 3**	**4 - 5**	**After**
($ thousands)	**Total**	**1 year**	**years**	**years**	**5 years**
Debt (1)	704,801	48,251	656,550	—	—
Operating leases	33,438	3,701	6,172	5,024	18,541
Other obligations (2)	81,347	81,347	—	—	—
Total contractual obligations	819,586	133,299	662,722	5,024	18,541

(1) Debt payments include the face value of the Senior Notes plus any expected interest payments assuming the Senior Notes are held to maturity in 2019. Subsequent to December 31, 2016, Trinidad issued a tender offer and redemption for all outstanding Senior Notes. Effective February 8, 2016, US$203 million were validly tendered and the remaining balance will be redeemed on March 10, 2017. Refer to subsequent events for further information.
(2) Other obligations consist of accounts payable and accrued liabilities and the current portion of long-term debt.

Contingencies

Trinidad is involved in various legal actions that have arisen 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.

SHAREHOLDERS' EQUITY

Common shares at December 31, 2016 were valued at $1,374.7 million (222,087,270 shares).

Common shares at March 1, 2017 were valued at $1,517.7 million (269,547,587 shares).

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.

CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES

The preparation of the audited annual 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. The following discussion outlines the Company's critical accounting judgment and estimates adopted under IFRS.

Property and equipment

The accounting estimate that has the greatest impact on Trinidad's financial results relates to depreciation and amortization. Depreciation and amortization of Trinidad's property and equipment and intangible assets incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change with resulting impacts on the operation of Trinidad's property and equipment.

During the fourth quarter of 2015, in light of current and expected market conditions, Trinidad under took 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

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 that are deemed uncollectible could materially change as a result of changes in a customers' financial situations.

Impairments

Trinidad performs impairment tests of long-lived assets with determinate useful lives when indications of impairment exist. Trinidad tests goodwill for impairment at least annually, regardless of whether impairment indicators exist. Application of judgment is required in determining whether an impairment test is warranted. When indicators support that the asset is no longer impaired, Trinidad will reverse impairment losses. Similar to the impairment, application of judgment is required to determine whether a reversal should be considered. Management monitors and assesses whether impairment indicators exist on an ongoing basis.

Income taxes

Trinidad calculates an income tax provision in each of the jurisdictions in which it operates. 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. Furthermore, 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 estimates of the amounts 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.

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 the Company's operating entities in the United Arab Emirates was determined to be the US dollar. The functional currency of Trinidad's joint venture operations is the US dollar, including operations in Saudi Arabia and Mexico (refer to the audited consolidated annual financial statements for further discussion on the determination of the functional currency of Trinidad's joint venture operations).

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 canceled. 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 clause 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.

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, excluding all joint venture operations. (Note - As of December 31, 2016, Trinidad has sold all barge rig assets.)
- Joint venture operations - includes all international joint venture operations.
- Manufacturing operations - includes manufacturing work performed in each of the Canadian and US manufacturing divisions. (Note - As of December 31, 2016, Trinidad no longer operates the manufacturing divisions.)
- Corporate - includes all non-operating activities and acts as a support function to the other segments.

Purchase price allocation

The measurement of each business combination requires management estimation in determining the fair values of assets and liabilities acquired as well as the fair value of any intangible assets identified. Management is required to estimate future cash flows, discount rates and market conditions at the date of the acquisition in order to determine the fair value of certain identified intangible assets.

Goodwill

Goodwill is the consideration paid in excess of the fair values of all identifiable assets and liabilities of an acquired business as of the acquisition date. Goodwill acquired through a business combination is allocated to each segment that is expected to benefit from the business combination.

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 inter-company 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.

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.

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. These interests are held in a separate equity account for classification purposes. 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 presented as a liability.

Midland C Ranch Holdings, LLC (Midland), CanElson 120601 Drilling Limited Partnership #1 (LP1), CanElson 120601 Drilling Limited Partnership #2 (LP2), and CanElson 120601 Drilling Limited Partnership #3 (LP3) were acquired as part of the CanElson acquisition in 2015. 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, LP1, LP2, and LP3 are presented as a liability as 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.

Trinidad's ownership in Diavaz CanElson de Mexico, S.A. de C.V. (DCM) was acquired as part of the CanElson acquisition in 2015. Trinidad owns 50% of the shares of 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.

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 and the non controlling interest liability 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”.

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, 2016 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: 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 this standard on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Trinidad's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed or caused to be designed under their supervision, disclosure controls and procedures (DC&P) to provide reasonable assurance that all information required to be disclosed by Trinidad is recorded, processed, summarized and reported to senior management, including the CEO and CFO, in an appropriate manner to allow timely decisions regarding required disclosure as defined under Multilateral Instrument 52-109, Certification of Disclosures in Annual and Interim Filings. An evaluation of the design and operating effectiveness of the disclosure controls and procedures was performed as at December 31, 2016. Trinidad's CEO and CFO have concluded, based on these evaluations of the design and operating effectiveness at December 31, 2016, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Trinidad, including its consolidated subsidiaries, is adequately disclosed.

The CEO and CFO do not expect that the disclosure controls and procedures will prevent or detect all errors, misstatements and fraud but are designed to provide reasonable assurance of achieving their objectives. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

In addition to disclosure controls and procedures, the CEO and CFO are responsible for designing internal controls over financial reporting (ICFR), or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of Trinidad's ICFR using the framework and criteria established in Internal Control - Integrated Framework (COSO Framework), which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The CEO and CFO have concluded that the Company's internal controls over financial reporting, as of the end of the period covered by the annual filings, are designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting may not prevent or detect all errors, misstatements and fraud. The design of internal controls must take into account cost-benefit constraints. There have been no significant changes in the Company's disclosure controls and procedures and internal controls over financial reporting that occurred during the year and no material weaknesses or significant deficiencies have been identified in the design and operating effectiveness of these controls, that could materially affect or are reasonably likely to affect Trinidad's internal controls over financial reporting.

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, 2016, Trinidad incurred legal fees of $0.8 million (2015 - $1.5 million) to Blake, Cassels & Graydon LLP. At December 31, 2016, nil 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 year ended December 31, 2016, Trinidad recorded revenue from Halliburton of $0.3 million (2015 - $2.1 million).

BUSINESS RISKS

The business of Trinidad Drilling Ltd. is subject to certain risks and uncertainties. Prior to making any investment decision regarding Trinidad, investors should carefully consider, among other things, the risks described herein (including the risks and uncertainties listed in the Forward-Looking Statements section in this MD&A) and the risk factors set forth in the most recently filed Annual Information Form of the Company which is incorporated by reference herein. The Annual Information Form has been filed with SEDAR and can be accessed at www.sedar.com. Copies may be obtained, on request without charge, by contacting Trinidad at (403) 265-6525.

SUBSEQUENT EVENT

On January 19, 2017, Trinidad announced a $100 million bought deal financing agreement. On January 20, 2017, the bought deal financing announcement was revised and increased to $130 million. The agreement includes an offering of 41,269,841 common shares, at a price of $3.15 per share, for aggregate gross proceeds of approximately $130 million. The Company also granted the Underwriters an over-allotment option to purchase an additional 6,190,476 common shares on the same terms. Effective February 8, 2017, a total of 47,460,317 common shares were issued for gross proceeds of approximately $149.5 million.

On January 25, 2017, Trinidad announced a cash tender offer to purchase any and all of the Company's outstanding 7.875% senior unsecured notes due in 2019, of which US$450 million aggregate principal amount was outstanding at December 31, 2016, for consideration of US$1,005 per US$1,000 principal amount expiring on February 8, 2017. Pursuant to the terms of the tender offer, approximately US$203 million of these notes were validly tendered for gross proceeds of approximately US$205 million including accrued and unpaid interest. All remaining notes due in 2019 that were not validly tendered will be redeemed on March 10, 2017, at their principal amount plus any accrued and unpaid interest.

On January 25, 2017, Trinidad also announced a private offering of US$350 million of senior unsecured notes. On January 27, 2017, Trinidad announced that the maturity date of these notes would be 2025, and that the notes would accrue at a rate of 6.625% per annum payable semi-annually. Effective February 8, 2017, Trinidad closed this private placement.

TRINIDAD DRILLING

TDG

NON-GAAP MEASURES DEFINITIONS

This MD&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-GAAP 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:

For the years ended December 31, ($ thousands)	**2016**	2015
Net (loss) income	**(53,635)**	(218,346)
Plus:		
Finance and transaction costs	**55,824**	55,851
Depreciation and amortization	**171,746**	118,900
Income taxes	**(34,160)**	(121,776)
	139,775	(165,371)
Plus:		
(Gain) on sale of assets	**(11,317)**	(1,571)
Impairment of property and equipment	**—**	205,628
Impairment of goodwill	**—**	111,847
Share-based payment expense	**8,434**	(208)
Foreign exchange	**(3,374)**	7,172
Non-controlling interest fair value adjustment	**(9,398)**	—
(Gain) loss from investment in joint ventures	**(12,929)**	1,530
Adjusted EBITDA from investment in joint ventures	**31,811**	27,719
Adjusted EBITDA	**143,002**	186,746

“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 joint venture 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:

For the years ended December 31,		
($ thousands)	**2016**	2015
Gain (loss) from investment in joint ventures	**12,929**	(1,530)
Plus:		
Finance costs	**1,169**	630
Depreciation and amortization	**21,617**	16,116
Income taxes	**2,901**	2,202
	38,616	17,418
Plus:		
(Gain) loss on sale of property and equipment	**(4)**	377
Share-based payment expense	**91**	—
Dividend expense	**14,891**	—
Foreign exchange	**1,055**	1,159
TDI investment - fair value adjustment	**(7,353)**	(7,517)
Preferred share valuation	**(15,485)**	16,282
Adjusted EBITDA from investment in joint ventures	**31,811**	27,719

“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	**December 31,**	December 31,
($ thousands)	**2016**	2015
Current assets	**129,927**	194,859
Less:		
Current liabilities	**81,806**	133,487
Working capital	**48,121**	61,372

“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 GAAP MEASURES DEFINITIONS

To assess performance, the Company uses certain additional GAAP financial measures within the 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 flow, Operating income, Operating income percentage and Operating income - net percentage. These additional GAAP 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.

“Funds flow” is used by management and investors to analyze the funds generated by Trinidad’s principal business activities prior to consideration of working capital, which is primarily made up of highly liquid balances. This balance is reported in the consolidated statements of cash flows included in the cash flows from 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 G&A expenses divided by revenue net of operating and G&A third party costs.

Trinidad is a corporation focused on sustainable growth that trades on the Toronto Stock Exchange 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 United States (US) and internationally. 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's drilling fleet is one of the most adaptable, technologically advanced and competitive in the industry.

Lyle Whitmarsh

Lyle C. Whitmarsh
Chief Executive Officer

L Bolster

Lesley M. Bolster
Chief Financial Officer

March 1, 2017

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 statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations and comprehensive (loss) income, 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
111 5th Avenue SW Suite 3100, Calgary, Alberta Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781-1825

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, 2016 and December 31, 2015 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, 2016	December 31, 2015
Assets			
Current Assets			
Cash and cash equivalents	*4*	**25,780**	63,686
Accounts receivable		**91,062**	113,870
Inventory	*5*	**7,907**	7,136
Prepaid expenses		**4,960**	7,423
Assets held for sale	*7*	**218**	2,744
		129,927	194,859
Property and equipment	*8*	**1,482,897**	1,656,268
Intangible assets and goodwill	*9*	**33,706**	35,048
Deferred income taxes	*12*	**72,873**	54,367
Investment in joint ventures	*10*	**262,673**	295,658
		1,982,076	2,236,200
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		**79,388**	93,795
Dividends payable		**—**	2,221
Deferred revenue and customer deposits		**459**	34,862
Current portion of long-term debt	*11*	**1,959**	2,609
		81,806	133,487
Long-term debt	*11*	**601,057**	704,311
Deferred income taxes	*12*	**49,348**	60,495
Non-controlling interest	*13*	**7,197**	18,448
		739,408	916,741
Shareholders' Equity			
Common shares	*14*	**1,374,656**	1,374,656
Contributed surplus		**65,087**	64,884
Accumulated other comprehensive income		**179,499**	203,947
Deficit		**(376,574)**	(324,028)
		1,242,668	1,319,459
		1,982,076	2,236,200
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	**2016**	2015
Revenue			
Oilfield service revenue		**359,889**	549,772
Other revenue		**2,255**	2,127
		362,144	551,899
Expenses			
Operating expense	*23*	**202,567**	329,733
General and administrative	*23*	**56,820**	62,931
Depreciation and amortization	*8&9*	**171,746**	118,900
Foreign exchange	*23*	**(3,374)**	7,172
(Gain) on sale of assets	*7&8*	**(11,317)**	(1,571)
Impairment of property and equipment	*8*	**—**	205,628
Impairment of goodwill	*9*	**—**	111,847
		416,442	834,640
(Gain) loss from investment in joint ventures [1]	*10*	**(12,929)**	1,530
Finance and transaction costs	*23*	**55,824**	55,851
Non-controlling interest fair value adjustment	*13*	**(9,398)**	—
(Loss) before income taxes		**(87,795)**	(340,122)
Income taxes			
Current	*12*	**(871)**	2,757
Deferred	*12*	**(33,289)**	(124,533)
		(34,160)	(121,776)
Net (loss)		**(53,635)**	(218,346)
Other comprehensive (loss) income			
Foreign currency translation adjustment			
for foreign operations, net of income tax	*24*	**(24,448)**	141,477
Foreign currency translation adjustment			
for non-controlling interest, net of income tax	13	**(144)**	650
		(24,592)	142,127
Total comprehensive (loss) income		**(78,227)**	(76,219)
Net (loss) income attributable to:			
Shareholders of Trinidad		**(52,546)**	(218,350)
Non-controlling interest	*13*	**(1,089)**	4
Total comprehensive (loss) income attributable to:			
Shareholders of Trinidad		**(76,994)**	(76,873)
Non-controlling interest	*13*	**(1,233)**	654
Earnings per share			
Net (loss)			
Basic / Diluted	*16*	**(0.24)**	(1.30)

[1] (Gain) loss 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 consolidated financial statements)

Consolidated Statement of Changes in Equity

For the years ended December 31, 2016 and 2015 ($ thousands)	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		**—**	**203**	**—**	**—**	**203**
Total comprehensive (loss) income	*24*	**—**	**—**	**(24,448)**	**(52,546)**	**(76,994)**
Balance at December 31, 2016		**1,374,656**	**65,087**	**179,499**	**(376,574)**	**1,242,668**
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

(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) - unaudited	Notes	**2016**	2015
Cash provided by (used in)			
Operating activities			
Net (loss)		**(53,635)**	(218,346)
Adjustments for:			
Depreciation and amortization	*8&9*	**171,746**	118,900
Foreign exchange	*23*	**(3,374)**	7,172
(Gain) on sale of assets	*7&8*	**(11,317)**	(1,571)
Impairment of property and equipment	*8*	**—**	205,628
Impairment of goodwill	*9*	**—**	111,847
(Gain) loss from investment in joint ventures [1]	*10*	**(12,929)**	1,530
Finance and transaction costs	*23*	**55,824**	55,851
Non-controlling interest fair value adjustment	*13*	**(9,398)**	—
Income taxes	*12*	**(34,160)**	(121,776)
Interest income		**(2)**	(34)
Other [2]		**11,811**	3,218
Income taxes paid		**(2,138)**	(10,462)
Income taxes recovered		**760**	3,151
Interest paid		**(50,572)**	(46,923)
Interest received		**2**	34
Funds flow		**62,618**	108,219
Change in non-cash operating working capital	*25*	**(32,308)**	107,243
Cash flow provided by operating activities		**30,310**	215,462
Investing activities			
Purchase of property and equipment		**(44,326)**	(140,047)
Proceeds from disposition of assets		**18,894**	6,230
Net investment in joint ventures	*10*	**13,138**	(93,094)
Distribution and dividends received from joint venture	*10*	**21,509**	—
Acquisition of CanElson (net)	*6*	**—**	(70,911)
Purchase of intangibles	*9*	**—**	(1,082)
Change in non-cash working capital	*25*	**14,726**	29,317
Cash flow provided (used) by investing activities		**23,941**	(269,587)
Financing activities			
Proceeds from long-term debt		**138,252**	205,790
Repayments of long-term debt		**(227,346)**	(130,917)
Repurchase of shares		**—**	(8,350)
Dividends paid		**(2,221)**	(31,205)
Finance costs		**(762)**	(784)
Cash flow (used) provided by financing activities		**(92,077)**	34,534
Cash flow from operating, investing and financing activities		**(37,826)**	(19,591)
Effect of translation of foreign currency cash		**(80)**	12,215
Decrease in cash for the year		**(37,906)**	(7,376)
Cash and cash equivalents - beginning of year		**63,686**	71,062
Cash and cash equivalents - end of year		**25,780**	63,686

(1) (Gain) loss 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 of $8.4 million (2015 - ($0.2) million) 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 oil and natural gas industry, with operations in Canada, the United States and internationally. 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 providing modern, reliable, expertly designed equipment operated by well-trained and experienced personnel. The Company 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, 2016. 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 judgments and estimates below for further discussion.

These consolidated financial statements were authorized for issuance by the Board of Directors as of March 1, 2017.

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, excluding all joint venture operations. (Note - As of December 31, 2016, Trinidad had sold all barge rig assets.)
- Joint venture operations - includes all international joint venture operations.
- Manufacturing operations - includes manufacturing work performed in each of the Canadian and US manufacturing divisions. (Note - As of December 31, 2016, Trinidad no longer operates the 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 the Company's operating entities in the United Arab Emirates was determined to be the US dollar. 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).

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 (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:

a) ***Depreciation of property and equipment***. Refer to the Company's significant accounting policies (note 3) for a detailed discussion.

b) ***Income taxes.*** Refer to the Company's significant accounting policies (note 3) for a detailed discussion.

c) ***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.

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.*** 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) for a detailed discussion.

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

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.

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.

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. These interests are held in a separate equity account for classification purposes. 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 presented as a liability.

Midland C Ranch Holdings, LLC (Midland), CanElson 120601 Drilling Limited Partnership #1 (LP1), CanElson 120601 Drilling Limited Partnership #2 (LP2), and CanElson 120601 Drilling Limited Partnership #3 (LP3) were acquired as part of the CanElson acquisition in 2015. 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, LP1, LP2, and LP3 are presented as a liability as their shares are required to be redeemed for cash on a fixed or determinable date. The principal place of business for Midland is the US and the principal place of business for LP1, LP2 and LP3 is Canada.

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.

Trinidad's ownership in Diavaz CanElson de Mexico, S.A. de C.V. (DCM) was acquired as part of the CanElson acquisition in 2015. Trinidad owns 50% of the shares of 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 labor, 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 and boilers	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 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 under took 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

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	up to 10 years	Straight-line
Trade name	up to 5 years	Straight-line
Non-compete agreements	up to 3 years	Straight-line
Customer relationships	up to 5 years	Usage
Internally generated		
Engineering and design	up to 5 years	Straight-line

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 basis 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 canceled. 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 clause 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.

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 that are deemed uncollectible could materially change as a result of changes in a customers' financial situations.

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 PSUs. 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, as well as certain performance factors assessed by management.

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 periods of the SARs. 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 the shareholders of Trinidad by the weighted average number of shares outstanding. Diluted earnings per share amounts are computed by dividing net earnings attributable to the shareholders of Trinidad 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 inter-company receivable from or inter-company 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 inter-company 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 and the non controlling interest liability 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.

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 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, 2016 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: 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 this standard on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

As at ($ thousands)	**December 31,** **2016**	December 31, 2015
Cash and cash equivalents	**25,780**	63,686

Cash and cash equivalents are comprised of cash at bank and cash on hand, less cheques in transit, as well as short-term investments and similar instruments that have a maturity of three months. 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 one material bank account that is excluded from the master netting agreement; the balance of this account at December 31, 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 11).

5. INVENTORY

As at ($ thousands)	**December 31,** **2016**	December 31, 2015
Parts and materials	**7,907**	6,913
Work-in-process	**—**	223
Total inventory	**7,907**	7,136

The amount of inventory used during the year was $10.9 million (2015 - $148.7 million). This amount was recognized as an expense in the consolidated statement of operations and comprehensive (loss) income during the year. During the year ended December 31, 2016, Trinidad did not recognize an impairment on inventory items (2015 - $0.3 million).

6. BUSINESS COMBINATIONS

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:

Classes of Consideration Transferred	
($ thousands)	**August 11, 2015**
Cash paid	50,000
Shares issued	295,245
Total consideration paid	**345,245**

The acquisition was 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.

Assets and Liabilities Acquired	
($ thousands)	**August 11, 2015**
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	**345,245**

The allocations and determinations of the consideration described above were 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 arose as a result of the assembled workforce, the synergies that existed within the acquired business and also the synergies that were expected to be achieved as a result of combining CanElson with the rest of the Company. None of the goodwill recognized was expected to be deductible for income tax purposes. The intangible assets were 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 was included in the total assets and total liabilities assumed. The cash movement was 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 to December 31, 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 related to due diligence and external legal fees as well as transaction costs for employee related expenditures. These costs were included in finance and transaction costs on the consolidated statements of operations and comprehensive income (loss).

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

At December 31, 2016, Trinidad identified a top drive included in capital inventory in the Canadian division that was being underutilized. As such, the Company has entered into a sales agreement to dispose of this item. As of December 31, 2016, this asset has been reclassified to assets held for sale. As the agreed sales price is greater than the current net book value, no valuation adjustment was required (note 8).

At 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 and subsequently sold in early 2016.

8. PROPERTY AND EQUIPMENT

Property and equipment as at and for the periods ended December 31, 2016 and December 31, 2015 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, 2015	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
Additions/transfers	**105,293**	**118**	**—**	**44**	**—**	**(76,182)**	**29,273**
Disposals	**(124,331)**	**(6,663)**	**(35)**	**(946)**	**(88)**	**(7,285)**	**(139,348)**
Assets held for sale	**(275)**	**—**	**—**	**—**	**—**	**—**	**(275)**
Effect of foreign exchange	**(54,106)**	**(565)**	**(648)**	**(53)**	**(86)**	**(867)**	**(56,325)**
Balance as at December 31, 2016	**2,791,761**	**26,623**	**53,520**	**2,881**	**12,054**	**12,777**	**2,899,616**
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	**164,484**	**3,985**	**2,188**	**178**	**—**	**—**	**170,835**
Disposals	**(129,536)**	**(4,126)**	**(8)**	**(844)**	**—**	**—**	**(134,514)**
Assets held for sale	**(57)**	**—**	**—**	**—**	**—**	**—**	**(57)**
Effect of foreign exchange	**(29,048)**	**(367)**	**(104)**	**(49)**	**—**	**—**	**(29,568)**
Balance as at December 31, 2016	**1,383,887**	**16,127**	**14,047**	**2,658**	**—**	**—**	**1,416,719**
Net book value							
December 31, 2016	**1,407,874**	**10,496**	**39,473**	**223**	**12,054**	**12,777**	**1,482,897**
December 31, 2015	1,487,136	17,098	42,232	463	12,228	97,111	1,656,268

Included in additions to property and equipment for the period ended December 31, 2016 and December 31, 2015 are nil and $1.3 million, respectively, of capitalized borrowing costs based on a capitalization rate of nil and 6.69%, respectively. For the year ended December 31, 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).

For the year ended December 31, 2016, external indicators of impairment continued to exist mainly related to industry factors and market capitalization rates. However, each of these indicators were the same as at December 31, 2015, and have subsequently improved since the prior year end. As such, at December 31, 2016, no new impairment indicators were identified that would indicate an impairment test was required and no impairment expense was recorded.

For the year ended December 31, 2015, due to a decline in commodity prices and a more pessimistic view of short-term market conditions, Trinidad recorded total impairment expense of $205.6 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, and 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 $101.9 million. This amount partially related to the decommissioning of five rigs, which resulted in an impairment of $9.7 million, as well as impairment of $65.3 million related to capital inventory and other equipment and $26.9 million related to barge rig assets.

9. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill as at and for the period ended December 31, 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	**—**	**—**	**—**	**(431)**	**(431)**
Balance as at December 31, 2016	**3,000**	**900**	**1,082**	**204,977**	**209,959**
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	**—**	**450**	**461**	**—**	**911**
Balance as at December 31, 2016	**3,000**	**626**	**539**	**172,088**	**176,253**
Net book value					
December 31, 2016	**—**	**274**	**543**	**32,889**	**33,706**
December 31, 2015	—	724	1,004	33,320	35,048
Remaining useful life					
December 31, 2016 (years)	—	**0.61**	**1.00**	**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, 2016, the net book value of patents was nil (December 31, 2015 - nil).

- **Customer relationships** - consist of customer relationships acquired from the CanElson 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, 2016, an impairment test was performed on the Canadian and US and International operating segments and it was determined that no impairment existed (2015 - $111.8 million). 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 operating of the relevant CGUs, incorporating the following assumptions:

1. A weighted average pre-tax discount rate of 11.17% to 11.42% (2015 - 13.10% to 14.60%) 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 2016 operating results and past experience (2015 - Cash flows were projected based on past experience, actual 2015 operating results, the 2016 forecast and the current industry conditions).

3. A terminal value was used for each of the 2016 and 2015 impairment model calculations assuming no annual growth rate for cash flows through the remainder of the segment’s life.

For the year ended December 31, 2016, the recoverable amount of all CGUs 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 (2015 - the company recognized an impairment loss of $111.8 million on goodwill associated with its US and international Segment).

As at December 31, 2016, goodwill of $32.9 million is comprised of $18.9 million in the Canadian operations and $14.0 million in the US and international operations. (December 31, 2015 - Goodwill of $33.3 million is comprised of $18.9 million in the Canadian operations and $14.4 million in the US and international operations.)

10. INVESTMENT IN JOINT VENTURES

Joint Ventures (Gain) Loss Reconciliation

For the years ended December 31, ($ thousands)	**2016**	2015
Trinidad Drilling International (gain) loss from investment	**(5,986)**	10,149
Trinidad Drilling International fair value adjustment	**(7,353)**	(7,517)
Diavez CanElson de Mexico, S.A. de C.V. loss (gain) from investment	**410**	(1,102)
(Gain) loss from investment in joint ventures	**(12,929)**	1,530

Joint Ventures Investment Reconciliation

As at ($ thousands)	**December 31, 2016**	December 31, 2015
Trinidad Drilling International investment balance	**261,984**	294,511
Diavez CanElson de Mexico, S.A. de C.V. investment balance	**689**	1,147
Investment in joint ventures	**262,673**	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 (MRPS) classified as liabilities. As the MRPS's are considered a liability, all dividends declared are recorded as an expense to net income (loss) on the statement of operations and comprehensive income (loss). 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, 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	**5,986**	(10,149)
Change in loan to joint venture	**(13,138)**	26,330
Elimination of downstream transactions	**(1,062)**	(3,444)
Fair value adjustment	**7,353**	7,517
Effect of foreign exchange	**(10,157)**	43,535
Ending balance	**261,984**	294,511

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 reviewed its current useful life 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 and caused an increase in depreciation expense for the year ended December 31, 2016 of approximately $3.9 million. 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 and boilers	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	
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)
Leasehold improvements	term of lease		

Summarized financial information for Trinidad Drilling International

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

For the years ended December 31,				
($ thousands)	**2016**		2015	
	TDI	**Trinidad 60% Share**	TDI	Trinidad 60% Share
Revenue				
Oilfield service revenue	131,823	**79,094**	136,731	82,039
Other revenue	—	**—**	333	200
	131,823	**79,094**	137,064	82,239
Expenses				
Operating expenses	69,324	**41,594**	78,005	46,803
General and administrative	11,532	**6,919**	14,021	8,413
Depreciation and amortization	31,505	**18,903**	25,613	15,368
Foreign exchange	1,996	**1,198**	2,085	1,251
Finance costs	1,398	**839**	823	494
Loss on sale of property and equipment	—	**—**	655	393
Dividend expense	24,818	**14,891**	—	—
Preferred share valuation	(25,809)	**(15,485)**	27,136	16,282
Income (loss) before income tax	17,059	**10,235**	(11,274)	(6,765)
Current income taxes	6,039	**3,623**	5,149	3,089
Deferred income taxes	1,044	**626**	492	295
Net income (loss)	9,976	**5,986**	(16,915)	(10,149)

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, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	**78,008**	69,002
Accounts receivable	**23,494**	69,662
Inventory	**7,054**	8,495
Prepaid expenses	**2,578**	5,760
	111,134	152,919
Property and equipment	**391,383**	425,329
Deposits on property and equipment	**—**	420
Deferred income taxes	**3,208**	4,095
	505,725	582,763
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**15,544**	30,929
Preferred shares	**425,930**	476,194
Current portion of notes payable to joint venture partners	**11,789**	—
	453,263	507,123
Notes payable to joint venture partners	**26,854**	59,662
	480,117	566,785
Shareholders' Equity		
Common shares	**29,484**	29,484
Accumulated other comprehensive income	**4,159**	4,473
Deficit	**(8,035)**	(17,979)
	25,608	15,978
	505,725	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, $0.4 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 at a gain/loss on sale to the Company based on third-party valuations.

During the year ended December 31, 2016, Trinidad charged TDI general and administrative expenses related to shared services of $2.6 million (2015 - $3.2 million). As at December 31, 2016, TDI had an outstanding trade payable to Trinidad of $0.9 million (December 31, 2015 - $0.8 million) related to 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, earn interest at LIBOR + 2.5% and matures in November 2017. At December 31, 2016, the loan payable to the joint venture shareholders is $11.8 million of which $7.9 million is payable to Trinidad (December 31, 2015 - total loan payable of $32.0 million of which $21.4 million is payable to Trinidad).

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% and matures in December 2020. At December 31, 2016, The loan payable to the joint venture shareholders is $26.9 million, of which $16.1 million is payable to Trinidad (December 31, 2015 - total loan payable of $27.7 million of which $16.6 million is payable to Trinidad).

Fair value of investment in TDI joint venture

Trinidad assess the fair value of the investment using a discounted future cash flow model that compares the estimated future cash flows to the net book value of the asset at the period end date. The model incorporates the following assumptions:

1. A weighted average pre-tax discount rate of 11.17%, which considered industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels (2015 - 13.85%)

2. Five year forecasted cash flows, taking into consideration current industry conditions, actual 2016 operating results and past experience. (2015 - Cash flows were projected based on past experience, actual 2015 operating results, the 2016 forecast and the current industry conditions).

3. A terminal value was used for each of the 2016 and 2015 fair value assessments assuming no annual growth rate for cash flows through the remainder of the segment's life.

For the year ended December 31, 2016, it was determined that the fair value of the investment was higher than the net book value and as such an adjustment of $7.4 million was recorded to the (gain) loss from investment in joint ventures on the consolidated statements of operations and comprehensive (loss) income (2015 - $7.5 million).

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

Effective August 11, 2015, acquired 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	**Year ended**	Year ended
($ thousands)	**December 31, 2016**	December 31, 2015
Opening balance	**1,147**	—
(Loss) gain from investment in joint venture	**(410)**	1,102
Effect of foreign exchange	**(48)**	45
Ending balance	**689**	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 (loss) income for DCM:

		For the year ended		For the period August 11, 2015 to
($ thousands)		**December 31, 2016**		December 31, 2015
	DCM	**Trinidad 50% Share**	DCM	**Trinidad 50% Share**
Revenue				
Oilfield service revenue	10,535	**5,268**	4,811	2,406
	10,535	**5,268**	4,811	2,406
Expenses				
Operating expenses	7,533	**3,767**	3,193	1,596
General and administrative	723	**362**	227	114
Depreciation and amortization	5,427	**2,714**	1,495	748
Foreign exchange	(286)	**(143)**	(184)	(92)
Finance costs	660	**330**	271	136
Gain on sale of property and equipment	(8)	**(4)**	(32)	(16)
Loss before income tax	(3,514)	**(1,758)**	(159)	(80)
Current income taxes	492	**246**	2,794	1,397
Deferred income taxes	(3,187)	**(1,594)**	(5,158)	(2,579)
Net (loss) income	(819)	**(410)**	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.

As at ($ thousands)	**December 31, 2016**	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	**1,742**	1,677
Accounts receivable	**19,057**	18,880
Inventory	**645**	786
Prepaid expenses	**443**	434
	21,887	21,777
Property and equipment	**4,518**	12,385
Deferred income taxes	**3,392**	638
	29,797	34,800
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**6,666**	6,721
	6,666	6,721
Financial lease liability	**5,297**	8,822
	11,963	15,543
Shareholders' Equity		
Common shares	**3,920**	3,920
Accumulated other comprehensive (loss) income	**(108)**	496
Retained earnings	**14,022**	14,841
	17,834	19,257
	29,797	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, $2.8 million is due in less than one year, and $4.8 million is due in one to three years.

Related Party

At December 31, 2016, DCM had accounts payable of $6.7 million. This balance includes $1.9 million of management fees due to joint venture partners.

Credit risk

At December 31, 2016, DCM had accounts receivable of $19.1 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, 2016, $3.6 million of outstanding receivables was collected.

11. LONG-TERM DEBT

As at ($ thousands)	**December 31, 2016**	December 31, 2015
Limited Partnership Loans [1] [c]	**1,959**	2,609
Senior Notes [a]	**602,758**	620,661
Credit Facility [b]	**—**	89,873
	604,717	713,143
Less: unamortized debt issue costs	**(1,701)**	(6,223)
	603,016	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 includes the 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 expected 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 December 31, 2016, Trinidad had a significant positive restricted payment basket available.

   Subsequent to December 31, 2016, Trinidad launched an offer to purchase, for cash, all of the Company's outstanding 7.875% senior unsecured notes due in 2019 (2019 Notes) for consideration of US$1,005 per US $1,000 principal amount. As well, Trinidad completed a private offering of US$350.0 million aggregate principal amount of 6.625% senior unsecured notes due in 2025 (2025 Notes). Refer to note 26, Subsequent Events, for further information.

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, and a US revolving facility of $100.0 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. 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 financial 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 financial 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 December 31, 2016, Trinidad is in compliance with all covenants related to the credit facility.

Subsequent to year end, as part of Trinidad's refinancing plan, Trinidad amended its existing revolving credit facility. The amendment related to the use of up to US$50 million of the credit facility to repurchase or redeem the 2019 Notes and to make other related amendments to reflect and allow for the issuance of the 2025 Notes.

c) On August 11, 2015, Trinidad acquired debt as part of the CanElson acquisition which includes the following facilities:

Limited partnership #1 loan (LP1 loan) - As at December 31, 2016, Trinidad had completely paid off and extinguished the LP1 loan (December 31, 2015 - $0.6 million outstanding). This loan was secured by the drilling rig included in the partnership.

Limited partnership #3 loan (LP3 loan) - As at December 31, 2016, the LP3 loan had $2.0 million outstanding (December 31, 2015 - $2.0 million). Effective December 31, 2016, the financial institution that holds this debt called the loan and Trinidad is currently negotiating the debt arrangement. The loan is secured by the drilling rig included in the partnership and is classified as current portion of long-term debt.

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

12. INCOME TAXES

The components of tax expense by segment for the years ended 2016 and 2015 were as follows:

For the years ended December 31, ($ thousands)	**2016**	2015
Current tax expense		
Canada	**(1,288)**	686
US and international	**417**	2,071
	(871)	2,757
Deferred tax expense		
Canada	**(21,445)**	(43,179)
US and international	**(11,844)**	(81,354)
	(33,289)	(124,533)
Total tax (recovery) expense	**(34,160)**	(121,776)

Trinidad's income is subject to Canadian federal and provincial taxes, US federal and state taxes, and international federal taxes. For 2016 a $22.7 million recovery (2015 - $42.5 million recovery) relates to the Company's Canadian entities resulting from operations in Alberta, British Columbia, Saskatchewan and Manitoba, and an $11.4 million recovery (2015 - $79.3 million recovery) pertains to the Company's US and international operations.

Taxes on items recognized in other comprehensive income or directly in equity in 2016 and 2015 were as follows:

For the years ended December 31, ($ thousands)	**2016**	2015
Deferred tax on foreign exchange adjustments on debt	**(43,104)**	(48,273)

Factors affecting tax expense for the year:

For the years ended December 31, ($ thousands)	**2016**	2015
Net earnings before income tax	**(87,795)**	(340,122)
Corporate statutory tax rate	**27.00%**	26.10%
Tax expense at statutory rate	**(23,705)**	(88,772)
Non-taxable/non-deductible amounts	**2,333**	916
Statutory and other rate differences	**(20,705)**	(33,332)
Effect of change in timing of expected tax rates	**1,359**	(1,912)
Return to provision adjustment	**4,173**	(497)
Other	**2,385**	1,821
Effective income tax rate at 38.91% (2015 at 35.80%)	**(34,160)**	(121,776)

The effective tax rate on earnings of 38.91% in 2016 is higher than Canada's statutory tax rate of 27.00% 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 inter-company 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 2016 income tax liability by approximately $0.9 million (2015 - $3.4 million).

At December 31, 2016, the consolidated statements of financial position included $3.7 million of current taxes receivable (December 31, 2015 - $3.0 million) 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**	**Other**	**Total**
December 31, 2015	(277,380)	(464)	(277,844)
Expense to statement of operations	(12,187)	(2,876)	(15,063)
Translation and other	7,319	(65)	7,254
December 31, 2016	**(282,248)**	**(3,405)**	**(285,653)**

Deferred tax assets ($ thousands)	**Losses**	**Financing costs**	**Foreign exchange swaps**	**Share-based payments**	**Cumulative eligible capital**	**Other**	**Total**
December 31, 2015	221,069	1,131	48,273	1,028	215	—	271,716
(Benefit) expense to statement of operations	45,456	755	—	2,059	86	—	48,356
Translation and other	(5,722)	(2)	(5,169)	(1)	—	—	(10,894)
December 31, 2016	**260,803**	**1,884**	**43,104**	**3,086**	**301**	**—**	**309,178**

Net deferred tax asset (liabilities)	
At December 31, 2016	**23,525**
At December 31, 2015	(6,128)

The net deferred tax liability is presented in the Consolidated Statements of Financial Position as follows:

As at December 31, ($ thousands)	**2016**	**2015**
Deferred tax asset	72,873	54,367
Deferred tax liability	(49,348)	(60,495)
Net deferred tax liability	**23,525**	**(6,128)**

The estimated recovery period for the deferred tax balances is shown below:

As at December 31, ($ thousands)	2016	2015
Deferred tax (liabilities)		
To be payable after more than 12 months	**(282,777)**	(277,844)
To be payable within 12 months	**(2,876)**	—
Total deferred tax (liabilities)	**(285,653)**	(277,844)
Deferred tax assets		
To be recoverable after more than 12 months	**307,535**	270,399
To be recoverable within 12 months	**1,643**	1,317
Total deferred tax assets	**309,178**	271,716
Total net deferred tax asset (liability)	**23,525**	(6,128)

Loss carry-forwards of $806.4 million (2015 - $668.5 million) have been recognized for income tax purposes. They represent losses mainly located in Canada and the US, and are due to expire between 2027 and 2036.

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 $308.7 million (2015 - $341.9 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.

The non-controlling interests of Midland C Ranch Holdings, LLC (Midland), CanElson 120601 Drilling Limited Partnership #1 (LP1), CanElson 120601 Drilling Limited Partnership #2 (LP2), and CanElson 120601 Drilling Limited Partnership #3 (LP3) were initially measured at fair value on the date of acquisition.

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

For the years ended December 31, ($ thousands)	**2016**	2015
Opening balance	**18,448**	—
Acquired investment	**—**	16,577
Foreign currency translation adjustment	**(620)**	1,217
Comprehensive (loss) income attributable to non-controlling interest	**(1,233)**	654
Change in fair value of liability	**(9,398)**	—
Closing balance	**7,197**	18,448

	LP1	**LP2**	**LP3**	**Midland**	**Total**
Non-controlling interest ownership percentage	**50%**	**45.6%**	**50%**	**50%**	

As at December 31, 2016 ($ thousands)					
Current assets	1,472	764	14	2,863	**5,113**
Non-current assets	4,288	4,067	4,336	20,409	**33,100**
Current liabilities	1,250	3,100	2,766	747	**7,863**
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	—	—	—	—	—

For the year ended December 31, 2016 ($ thousands)	LP1 50%	LP2 45.6%	LP3 50%	Midland 50%	Total
Revenue	3,836	1,611	—	5,616	**11,063**
Net loss	(142)	(312)	(797)	(954)	**(2,205)**
Net loss attributable to non-controlling interest	(71)	(142)	(399)	(477)	**(1,089)**
Total comprehensive loss attributable to non-controlling interest	(71)	(142)	(399)	(621)	**(1,233)**

For the period August 11, 2015 to December 31, 2015 ($ thousands)					
Revenue	2,027	1,459	—	2,748	6,234
Net loss	(84)	22	(434)	506	10
Net loss attributable to non-controlling interest	(42)	10	(217)	253	4
Total comprehensive loss attributable to non-controlling interest	(42)	10	(217)	903	654

Fair value of non-controlling interest

Trinidad assess the fair value of the investment using a discounted future cash flow model that compares the estimated future cash flows to the net book value of the asset at the period end date. The model incorporates the following assumptions:

1. A weighted average pre-tax discount rate of 11.17% to 11.42%, which considered industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels (2015 - 13.10% to 14.60%).

2. Five year forecasted cash flows, taking into consideration current industry conditions, actual 2016 operating results and past experience. (2015 - Cash flows were projected based on past experience, actual 2015 operating results, the 2016 forecast and the current industry conditions).

3. A terminal value was used for each of the 2016 and 2015 fair value assessments assuming no annual growth rate for cash flows through the remainder of the segment's life.

For the year ended December 31, 2016, it was determined that the fair value of the investment was lower than the net book value and as such an adjustment of $9.4 million was recorded as non-controlling interest fair value adjustment included in the consolidated statements of operations and comprehensive (loss) income (2015 - nil).

14. COMMON SHARES

Authorized

Unlimited number of common shares, voting, participating:

For the years ended December 31, (Number of shares)	2016	2015
Outstanding - beginning of year	**222,087,270**	135,157,724
Issued upon business combination	**—**	88,661,926
Canceled upon repurchase under NCIB	**—**	(1,732,380)
Outstanding - end of year	**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 year ended December 31, 2016, no dividends were declared (2015 - total dividends declared of $26.7 million at $0.05 per share for the first, second and third quarter and $0.01 per share for the fourth 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 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 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 and canceled for total consideration of $8.4 million.

Subsequent to December 31, 2016, Trinidad announced a bought deal equity financing agreement, whereby Trinidad agreed to offer 41,269,841 common shares at a price of $3.15 per share. The Company also granted an overallotment option to purchase an additional 6,190,476 common shares on the same terms, exercisable for a period of 30 days following the closing of the offering. See note 26, Subsequent events, for further information.

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, 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:

For the years ended December 31,	2016		2015	
	Number	Weighted average exercise price (CDN$)	Number	Weighted average exercise price (CDN$)
Outstanding - beginning of year	**880,891**	**7.35**	850,676	8.21
Granted	**480,675**	**2.22**	261,600	5.21
Exercised	**—**	**—**	—	—
Expired	**(123,815)**	**8.58**	(124,177)	8.27
Forfeited	**(77,431)**	**5.22**	(107,208)	7.89
Outstanding - end of year	**1,160,320**	**5.24**	880,891	7.35

The range of exercise prices for the options outstanding and exercisable at December 31, 2016 is as follows:

	Total options outstanding			Exercisable options	
	Number	Weighted average exercise price (CDN $)	Weighted average remaining life (years)	Number	Weighted average exercise price (CDN$)
$0.00-$4.99	**464,725**	**2.22**	**4.41**	**—**	**—**
$5.00-$6.50	**212,900**	**5.21**	**3.35**	**70,257**	**5.21**
$6.50-$7.50	**138,100**	**6.85**	**2.86**	**91,146**	**6.85**
$7.51-$9.50	**195,811**	**7.76**	**0.21**	**195,814**	**7.76**
$9.51-$10.00	**148,784**	**9.89**	**1.96**	**148,784**	**9.89**
	1,160,320	**5.24**	**3.01**	**506,001**	**7.87**

Trinidad uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. During the year ended December 31, 2016, Trinidad had two sets of granted options. The per share weighted average fair value of options granted on May 4, 2016 was $0.42 and December 1, 2016 was $0.62 (December 31, 2015 - $0.70) based on the following assumptions:

	For options granted on December 1, 2016	For options granted on May 4, 2016	For the year ended December 31, 2015
Share price (CDN $)	**2.90**	**2.13**	5.21
Exercise price (CDN $)	**2.90**	**2.13**	5.21
Volatility (%)	**29.8**	**28.6**	25.2
Expected life (years)	**3.5**	**3.5**	3.5
Dividend yield (%)	**—**	**—**	2.9
Forfeiture rate (%)	**5.0**	**5.0**	4.0
Risk free interest rate (%)	**0.9**	**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 the year ended December 31, 2016, Trinidad recognized share-based payment expense related to outstanding options of $0.2 million (2015 - $0.2 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)	**2016**	2015
Outstanding - beginning of year	**353,457**	266,791
New grants	**361,935**	105,843
Granted through dividend payment	**—**	16,150
Exercised	**(158,085)**	(35,327)
Outstanding - end of year	**557,307**	353,457

The total fair value of DSUs at December 31, 2016 was $1.9 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 year ended December 31, 2016, Trinidad recognized share-based payment expense related to the outstanding DSUs of $1.5 million (2015 - recovery of $0.5 million).

For the year ended December 31, 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 assessed by management 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:

For the years ended December 31,		
(Number of PSUs)	**2016**	2015
Outstanding - beginning of year	**3,198,453**	1,852,705
New grants	**4,112,807**	2,182,000
Granted through dividend payment	**—**	187,178
Exercised	**(965,447)**	(774,357)
Forfeited	**(165,130)**	(249,073)
Outstanding - end of year	**6,180,683**	3,198,453

At December 31, 2016, there were no vested PSUs outstanding (December 31, 2015 - nil). Of the PSUs outstanding at December 31, 2016, 2,133,575 vest on December 1, 2017 and 4,047,108 vest on December 1, 2018. The total fair value of PSUs at 2016 was $7.2 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, adjusted for performance factors. The liability is recorded in accounts payable and accrued liabilities in the consolidated statements of financial position.

For the year ended December 31, 2016, Trinidad recognized a share-based payment expense related to the outstanding PSUs of $6.6 million (2015 - expense of $0.1 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)	**2016**	2015
Outstanding - beginning of year	**475,916**	493,662
New grants	**353,850**	213,100
Forfeited	**(174,202)**	(230,846)
Outstanding - end of year	**655,564**	475,916

During the year ended December 31, 2016, 353,850 SARs were granted at an exercise price of $2.13 (2015 - 213,100 units granted at an exercise price of $5.21).

At December 31, 2016, there were 215,650 vested SARs outstanding (December 31, 2015 - 144,936). The total fair value of SARs at December 31, 2016 was $0.1 million (December 31, 2015 - nil).

For the year ended December 31, 2016, Trinidad recognized share-based payment expense related to the outstanding SARs of $0.1 million (2015 - nil).

16. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2016 and 2015, is based on the net earnings attributable to Trinidad shareholders, as reported in the consolidated statements of operations and comprehensive (loss) income, and the weighted average number of common shares outstanding in the period.

Diluted earnings per share for the year ended December 31, 2016 and 2015 is based on the net earnings attributable to Trinidad shareholders, as reported in the consolidated statements of operations and comprehensive (loss) income, and the 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)	**2016**	2015
Net (loss) earnings attributable to Trinidad common shareholders		
Basic	**(52,546)**	(218,350)
Diluted	**(52,546)**	(218,350)

Weighted average number of common shares		
Basic	**222,087,270**	168,227,833
Stock options	**409,725**	—
Diluted	**222,496,995**	168,227,833

For the year ended December 31, 2016, 750,595 stock options were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive (2015 - 880,891 stock options excluded).

17. CAPITAL MANAGEMENT

Trinidad's capital is comprised of debt, Senior Notes and shareholders' equity, less cash and cash equivalents. 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	**December 31,**	December 31,
($ thousands)	**2016**	2015
Limited Partnership Loans [1]	**1,959**	2,609
Long-term debt [2]	**—**	89,873
Senior Notes [2]	**602,758**	620,661
Total debt	**604,717**	713,143
Shareholders' equity	**1,242,668**	1,319,459
(Cash and cash equivalents)	**(25,780)**	(63,686)
Total capitalization	**1,821,605**	1,968,916

(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:

a) Ensuring Trinidad has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions and rig upgrade/maintenance programs;
b) Maintaining a strong capital base to ensure that investor, creditor and market confidence is secured, and ensuring Trinidad's strategic objectives are met, while retaining an appropriate amount of leverage;
c) Providing shareholder return through profitable business opportunities that grow the Company and benefit other stakeholders, while also safeguarding the entity's ability to continue as a going concern.

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 under-performing assets to reduce debt or equity when required.

The Company’s syndicated loan facility is subject to two covenants, which are reported to the bank on a quarterly basis. These covenants, which include both the Senior Debt to Bank EBITDA and Bank EBITDA to Cash Interest Expense, are non-GAAP measures defined within the loan facility and used by management to monitor capital.

- 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. For the rolling four quarters ended December 31, 2016, this ratio was (0.07):1 (2015 - 0.21:1).
- 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. For the rolling four quarters ended December 31, 2016, this ratio was 2.61:1 (2015 - 3.49:1).

For the year ended December 31, 2016, Trinidad remains in compliance with all 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 liability. 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	**December 31, 2016**		December 31, 2015	
	Fair	**Carrying**	Fair	Carrying
($ thousands)	**Value**	**Value**	Value	Value
Financial assets at amortized cost:				
Cash and cash equivalents	**25,780**	**25,780**	63,686	63,686
Accounts receivable	**91,062**	**91,062**	113,870	113,870
Financial assets at fair value through profit or loss:				
Investment in TDI joint venture	**261,984**	**261,984**	294,511	294,511
Financial liabilities measured at amortized cost:				
Accounts payable and accrued liabilities	**79,388**	**79,388**	93,795	93,795
Dividends payable	—	—	2,221	2,221
Limited Partnership Loans	**1,959**	**1,959**	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
Senior Notes (1)	**602,704**	**602,758**	554,292	620,661
Financial liabilities at fair value through profit or loss:				
Non-controlling interest liability	**7,197**	**7,197**	18,448	18,448

(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 nil at December 31, 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 10.
- **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 13.

During the year ended December 31, 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 December 31, 2016, the deferred issuance costs related to Trinidad's Senior Notes and revolving credit facilities was $1.7 million (December 31, 2015 - $6.2 million). Trinidad recorded finance costs of $5.3 million for the year ended December 31, 2016 relating to amortization of debt issuance costs (2015 - $1.8 million).

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.

	Risks			
			Market risks	
Financial Instrument	**Credit**	**Liquidity**	**Currency**	**Interest rate**
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 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	**December 31,**	December 31,
($ thousands)	**2016**	2015
Reserve allowance - beginning of year	**4,742**	3,799
Increase in reserve recorded	**458**	3,429
Write-offs charged against the reserve	**—**	(2,486)
Recoveries of amounts previously written-off	**(71)**	—
Reserve allowance - end of year	**5,129**	4,742

As at December 31, 2016 Trinidad had accounts receivable of $13.7 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, $0.6 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 December 31, 2016 ($ thousands)	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	79,388	—	—	—
Limited Partnership Loans	1,959	—	—	—
Senior Notes (1)	—	604,215	—	—
Interest payments on contractual obligations (2)	48,251	52,335	—	—
Total	129,598	656,550	—	—

(1) The financial liability of the Senior Notes represents the Canadian dollar face value at maturity in January of 2019. Subsequent to December 31, 2016, Trinidad issued a tender offer for all outstanding Senior Notes. Effective February 8, 2016, US$203 million were validly tendered. The remaining balance will be redeemed on March 10, 2017. Refer to subsequent events, note 26, for further information.
(2) The interest payments included above relate to the Senior Notes due in 2019 assuming they are held to maturity. Subsequent to December 31, 2016, Trinidad announced a tender offer and redemption of all remaining Senior Notes. Refer to subsequent events, note 26, for further information.

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 these drilling operations. 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, 2016 and 2015, the Company had in place a net investment hedge on these foreign entities.

As at December 31, 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 year ended December 31, 2016 would have fluctuated by approximately $0.1 million (2015 - $0.6 million), and for the year ended December 31, 2016, other comprehensive income would fluctuate by $11.9 million (2015 - $12.4 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, 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 year ended December 31, 2016 would cause a change of $0.2 million in interest costs (December 31, 2015 - $0.7 million).

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.

As at December 31, 2016	**Less than**	**1 - 3**	**4 - 5**	**After**
($ thousands)	**1 year**	**years**	**years**	**5 years**
Operating leases	3,701	6,172	5,024	18,541

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:

Year ended December 31, 2016 ($ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations (1)	Inter-segment Eliminations	Corporate	Total
Operating revenue	139,504	200,588	7,284	—	—	—	347,376
Other revenue	1,324	587	1	—	—	—	1,912
Third party recovery	11,843	5,037	—	—	—	—	16,880
General and administrative - third party recovery	—	—	—	—	—	1,051	1,051
Inter-segment revenue	—	—	54,734	—	(54,734)	—	—
Elimination of downstream transactions	(429)	(279)	(4,367)	—	—	—	(5,075)
	152,242	205,933	57,652	—	(54,734)	1,051	362,144
Operating costs	82,742	98,916	8,042	—	—	—	189,700
Third party costs	11,843	5,037	—	—	—	—	16,880
Inter-segment operating	—	—	54,734	—	(54,734)	—	—
Elimination of downstream transactions	—	—	(4,013)	—	—	—	(4,013)
Operating income	57,657	101,980	(1,111)	—	—	1,051	159,577
Depreciation and amortization	69,914	99,977	1,855	—	—	—	171,746
(Gain) loss on sale of assets	(156)	(11,127)	(34)	—	—	—	(11,317)
	69,758	88,850	1,821	—	—	—	160,429
Segmented (loss) income	(12,101)	13,130	(2,932)	—	—	1,051	(852)
(Gain) loss from investment in joint ventures	—	—	—	(12,929)	—	—	(12,929)
General and administrative	—	—	—	—	—	55,769	55,769
General and administrative - third party costs	—	—	—	—	—	1,051	1,051
Foreign exchange	—	—	—	—	—	(3,374)	(3,374)
Finance and transaction costs	—	—	—	—	—	55,824	55,824
Non-controlling interest fair value adjustment	4,284	(13,682)	—	—	—	—	(9,398)
Income taxes	—	—	—	—	—	(34,160)	(34,160)
Net (loss) income	(16,385)	26,812	(2,932)	12,929	—	(74,059)	(53,635)
Purchase of property and equipment	18,797	25,321	208	—	—	—	44,326

(1) The (gain) 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.

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)
	202,064	306,513	125,131	—	(83,082)	1,273	551,899
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	75,710	144,883	300	—	—	1,273	222,166
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
	153,080	279,336	2,388	—	—	—	434,804
Segmented income	(77,370)	(134,453)	(2,088)	—	—	1,273	(212,638)
(Gain) 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) income	(77,370)	(134,453)	(2,088)	(1,530)	—	(2,904)	(218,346)
Purchase of property and equipment	27,002	112,837	208	—	—	—	140,047

(1) The (gain) 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.

As at December 31, 2016 ($ thousands)	Canadian Operations	United States / International Operations	Manufacturing Operations	Joint Venture Operations (1)	Inter-segment Eliminations	Corporate	Total
Property and equipment	**555,542**	**907,182**	**20,173**	**—**	**—**	**—**	**1,482,897**
Intangible assets and goodwill	**19,172**	**13,991**	**543**	**—**	**—**	**—**	**33,706**
Total assets less deferred tax asset	**606,824**	**1,030,729**	**8,977**	**262,673**	**—**	**—**	**1,909,203**
Deferred income tax asset (liability)	**69,774**	**(45,151)**	**(1,098)**	**—**	**—**	**—**	**23,525**

(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

(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, 2016, Trinidad had long-term contracts in place with a number of significant oil and natural gas producing companies. For the year-ended December 31, 2016, Trinidad had one customer that provided a percentage of total revenue of 13.0% (2015 - 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, 2016, Trinidad incurred legal fees of $0.8 million (2015 - $1.5 million) to Blake, Cassels & Graydon LLP. At December 31, 2016, nil 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 year ended December 31, 2016, Trinidad recorded revenue from Halliburton of $0.3 million (2015 - $2.1 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)	**2016**	2015
Wages and short-term benefits	**4,870**	5,643
Share-based (recovery) expense	**7,018**	(351)
	11,888	5,292

The following discloses the number of units in share-based payment plans held by key management personnel:

As at	December 31,	December 31,
(Number of units)	**2016**	2015
Deferred share units	**557,313**	353,457
Performance share units	**3,673,072**	1,997,312

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, 2016, if there had been a change of control for Trinidad, the Company would be required to pay $17.8 million (2015 - $9.3 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, 2016		
Entity	**Principal activity**	**Country of Incorporation**
Trinidad Energy Services Income Trust	Holding company	Canada
Trinidad Well Servicing Ltd.	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
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
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	United Arab Emirates
Trinidad Saudi LLC	Land drilling	Saudi Arabia
Trinidad Drilling UAQ LLC	Land drilling	United Arab Emirates
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
TDL Bermuda Ltd.	Insurance company	Bermuda
Trinidad Design and Manufacturing FZE	Construction	United Arab Emirates
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 (loss) by function. The following table presents these expenses by nature:

For the years ended December 31, ($ thousands)	**2016**	2015
Expenses		
Wages and benefits	**130,511**	182,627
Materials and supplies	**46,557**	108,321
Third party costs	**16,880**	25,583
Repairs and maintenance	**28,341**	46,011
External services and facilities	**27,613**	29,057
General and administrative - third party costs	**1,051**	1,273
Share-based payment expense	**8,434**	(208)
	259,387	392,664
Allocated to:		
Operating expense	**202,567**	329,733
General and administrative	**56,820**	62,931
	259,387	392,664
Foreign exchange		
Foreign exchange - realized	**3,636**	(743)
Foreign exchange - unrealized	**(7,010)**	7,915
	(3,374)	7,172
Finance and transaction costs		
Interest on long-term debt	**49,907**	47,844
Accretion of Senior Notes	**611**	536
Deferred financing costs on long-term debt	**5,306**	1,820
Transaction costs	**—**	5,651
	55,824	55,851

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 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.

For the year ended December 31,		
($ thousands)	**2016**	2015
Unrealized gain on translation of foreign operations		
with functional currency different from Canadian dollar	**(38,425)**	215,459
Foreign exchange loss on net investment hedge with		
US dollar denominated debt, net of tax [1]	**13,977**	(73,982)
Total foreign currency translation adjustment	**(24,448)**	141,477

[1] Net of tax for the year ended 2016 was $5.2 million (2015 - $28.4 million).

25. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

For the years ended December 31,		
($ thousands)	**2016**	2015
Accounts receivable	**21,295**	151,302
Inventory	**(3,548)**	26,119
Prepaid expenses	**1,504**	19,932
Accounts payable and accrued liabilities	**(5,346)**	(74,568)
Deferred revenue	**(31,487)**	13,775
	(17,582)	136,560
Pertaining to:		
Operations	**(32,308)**	107,243
Investing	**14,726**	29,317
	(17,582)	136,560

26. SUBSEQUENT EVENTS

On January 19, 2017, Trinidad announced a $100 million bought deal financing agreement. On January 20, 2017, the bought deal financing announcement was revised and increased to $130 million. The agreement includes an offering of 41,269,841 common shares, at a price of $3.15 per share, for aggregate gross proceeds of approximately $130 million. The Company also granted the Underwriters an over-allotment option to purchase an additional 6,190,476 common shares on the same terms. Effective February 8, 2017, a total of 47,460,317 common shares were issued for gross proceeds of approximately $149.5 million.

On January 25, 2017, Trinidad announced a cash tender offer to purchase any and all of the Company's outstanding 7.875% senior unsecured notes due in 2019, of which US$450 million aggregate principal amount was outstanding at December 31, 2016, for consideration of US$1,005 per US$1,000 principal amount expiring on February 8, 2017. Pursuant to the terms of the tender offer, approximately US$203 million of these notes were validly tendered for gross proceeds of approximately US$205 million including accrued and unpaid interest. All remaining notes due in 2019 that were not validly tendered will be redeemed on March 10, 2017, at their principal amount plus any accrued and unpaid interest.

On January 25, 2017, Trinidad also announced a private offering of US$350 million of senior unsecured notes. On January 27, 2017, Trinidad announced that the maturity date of these notes would be 2025, and that the notes would accrue at a rate of 6.625% per annum payable semi-annually. Effective February 8, 2017, Trinidad closed this private placement.