



- + The Right **People**
- + The Right **Equipment**
- + The Right **Locations**

## = THE TRINIDAD STRATEGY

ANNUAL REPORT 2010



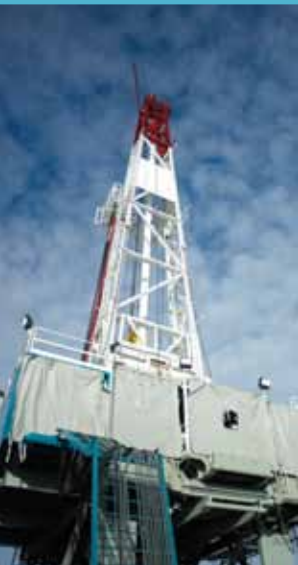
- Experienced crews
- Committed to safety
- Team culture
- Performance driven

We have some of the industry's best people on our team and their skill and experience are key elements in our past and future successes. Their commitment to achieving the best possible results for our customers shows strongly in our reputation for top performance and in our position as an industry leader in deep technical drilling.



## + The Right People

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- Operational focus
- Latest technology
- Deep-drilling capacity
- Superior utilization

Our rigs are built with today's challenging drilling environment in mind. Their automation and use of new drilling technology keep our crews safer, improve each rig's efficiency, and reduce its impact on the environment. Our customers can see the difference our equipment makes and we consistently outperform the industry activity levels.

## + The Right Equipment

page 12



- Foresight and vision
- Flexible equipment
- Customer partnerships
- Expanding operations

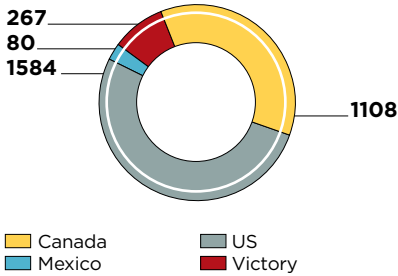
We are located in some of the most active drilling areas across North America. Our fleet of modern, deep capacity equipment is well suited to our customers' new and existing plays and has led to a history of customer-backed growth and expansion. We build flexibility into our equipment, allowing it to move easily between locations and commodities.



## + The Right Locations

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**+ EMPLOYEE COUNT**



**3,039**  
EMPLOYEES

**19%**  
FEWER  
SAFETY  
INCIDENTS  
IN 2010

Our down-to-earth, operations-focused culture encourages innovation and solution sharing across the company. Crew members' contributions lead to better performance and progressive rig designs that work well in the field.

**+ TECHNICALLY  
ADVANCED FLEET**

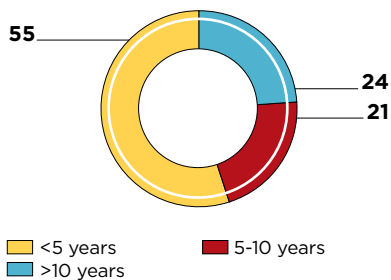


**3,700m**  
AVERAGE  
RIG DEPTH

**73%**  
HIGH-  
PERFORMANCE  
EQUIPMENT

Almost three-quarters of our fleet is high performance equipment with advanced drilling controls and high mobility. As drilling gets deeper and more technically challenging, these attributes become more important and are required more frequently by our customers.

**+ FLEET AGE\***  
(%)



**120\***  
DRILLING RIGS

**50%\***  
OF FLEET  
UNDER  
LONG-TERM  
CONTRACT

We work with our customers to build equipment that meets their needs for today and anticipates their needs for tomorrow. Our operational experience and expertise help us see trends in the industry and ensure our equipment is ready for the ever-changing oil and gas industry.

\* Includes three rigs under construction.

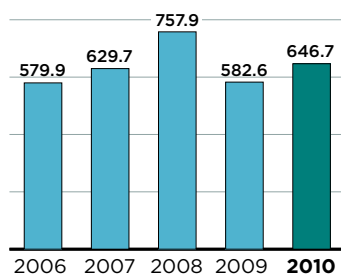
+ The Right Strategies  
 + The Right Disciplines  
 = Financial Stability

For the years ended December 31,  
 (\$ thousands except share, per share and percentage data)

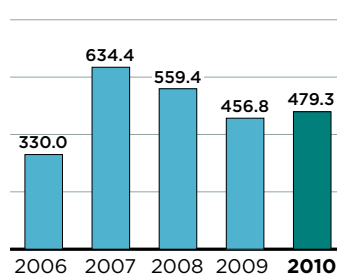
	2010	2009	2008
Revenue	646,658	582,591	757,900
Gross margin <sup>(1)</sup>	252,095	246,742	309,495
Gross margin percentage <sup>(1)</sup>	39.0%	42.4%	40.8%
EBITDA <sup>(1)</sup>	187,107	164,507	287,470
Per share (diluted) <sup>(2)</sup>	1.55	1.52	3.16
Adjusted EBITDA <sup>(1)</sup>	198,146	193,511	256,457
Per share (diluted) <sup>(2)</sup>	1.64	1.79	2.82
Cash flow from operations	119,420	107,080	210,782
Per share (basic) <sup>(2)</sup>	0.99	0.99	2.32
Per share (diluted) <sup>(2)</sup>	0.99	0.99	2.32
Cash flow from operations before change in non-cash working capital <sup>(1)</sup>	146,581	144,526	207,121
Per share (diluted) <sup>(2)</sup>	1.21	1.34	2.28
Net earnings (loss)	(82,133)	(22,439)	82,174
Per share (basic) <sup>(2)</sup>	(0.68)	(0.21)	0.90
Per share (diluted) <sup>(2)</sup>	(0.68)	(0.21)	0.90
Adjusted net earnings <sup>(1)</sup>	12,193	29,754	89,315
Per share (diluted) <sup>(2)</sup>	0.10	0.28	0.98
Adjusted net earnings before refinancing costs <sup>(1)</sup>	31,795	29,754	89,315
Per share (diluted) <sup>(2)</sup>	0.26	0.28	0.98
Capital expenditures (including acquisitions)	139,640	162,563	277,901
Net debt <sup>(1)</sup>	479,343	456,849	559,360
Shares outstanding - basic (weighted average) <sup>(2)</sup>	120,840,962	107,915,093	90,804,564
Shares outstanding - diluted (weighted average) <sup>(2)</sup>	120,840,962	107,915,093	91,003,946

- (1) Readers are cautioned that gross margin, gross margin percentage, EBITDA, Adjusted EBITDA, cash flow from operations before change in non-cash working capital, Adjusted net earnings, Adjusted net earnings before refinancing costs and net debt and the related per share information do not have standardized meanings prescribed by GAAP – see “Non-GAAP Measures”.
- (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 deemed conversion of convertible debentures and the number of shares issuable pursuant to the Incentive Option Plan.

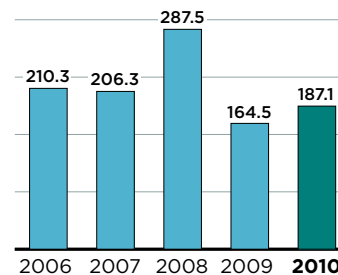
+ REVENUE  
 Millions (\$)



+ NET DEBT  
 Millions (\$)



+ EBITDA  
 Millions (\$)



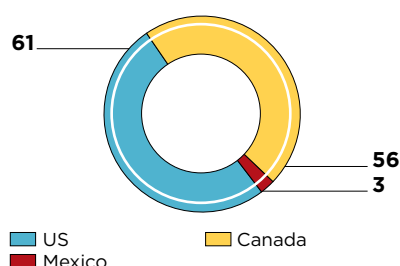
+ The Right Technology  
 + The Right Markets  
 = Operational Excellence

	2010	2009	2008
<b>Land Drilling Market</b>			
Operating days - drilling			
Canada	10,842	7,066	12,196
United States and International <sup>(1)</sup>	16,581	13,889	15,076
Rate per drilling day			
Canada (CDN\$)	22,693	23,315	23,827
United States and International (CDN\$) <sup>(1)</sup>	19,996	23,336	23,098
United States and International (US\$) <sup>(1)</sup>	19,333	20,189	22,006
Utilization rate - drilling			
Canada	55%	35%	57%
United States and International <sup>(1)</sup>	68%	63%	85%
CAODC industry average	40%	24%	42%
Number of drilling rigs at year end			
Canada	55	52	57
United States and International <sup>(1)</sup>	62	66	56
Utilization rate for service rigs	47%	30%	46%
Number of service rigs at year end	22	22	23
Number of coring and surface casing rigs at year end	20	20	20

<b>Barge Drilling Market</b>			
Operating days	1,442	1,136	1,285
Rate per drilling day (CDN\$)	24,206	29,971	44,387
Rate per drilling day (US\$)	23,413	25,614	42,358
Utilization rate <sup>(2)</sup>	90%	78%	93%
Number of barge drilling rigs at year end	2	1	1
Number of barge drilling rigs under Bareboat Charter at year end	3	3	3

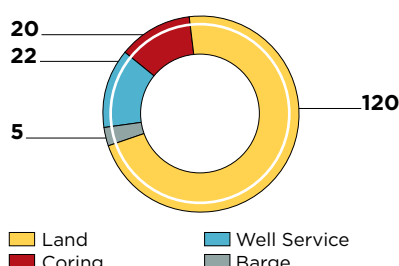
- (1) Trinidad commenced its operations in Mexico effective November 2008 and expanded its international operations into Chile effective August 2009.
- (2) During the first quarter of 2008, Trinidad completed significant work to one of its barge rigs and as a result it was removed from service and not included in the utilization calculation for that quarter.

+ LAND DRILLING BY LOCATION (Rig count)\*



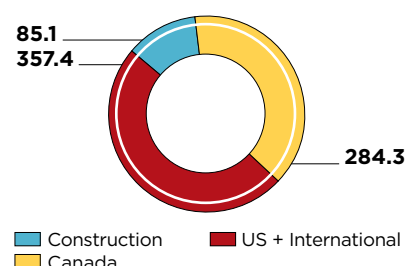
\* Includes three rigs under construction

+ FLEET BY TYPE (Rig count)\*



\* Includes three rigs under construction

+ REVENUE BY SEGMENT (Millions of \$)



Note: includes \$80 million in inter-segment eliminations

- + The Right Leaders
- + The Right Experience
- = Strong Strategies

Dear fellow investors,

The past 12 to 18 months have clearly demonstrated the ever-changing environment of the oil and gas industry and Trinidad's ability to outperform throughout its cycles. In 2009, we saw one of the sharpest contractions in activity levels in the industry's history followed by a strong rebound in 2010.

Managing a business in this type of constantly changing environment presents many challenges. At Trinidad, our long-term vision, clear strategy, and operational excellence guide us through these cycles and allow us to remain focused on achieving the best results for our investors.

Trinidad is known in the industry for its top performance. The key to this outperformance is a carefully monitored combination of the RIGHT PEOPLE, the RIGHT EQUIPMENT, and being in the RIGHT LOCATIONS. This combination takes foresight, planning, and a commitment throughout the cycles.

Our management team's operational experience and expertise allow us to be aware of trends in the industry. We use this knowledge and the challenges our crews and customers are facing to develop our new rig designs. These designs incorporate some of the most advanced drilling technology available, improving the performance of the equipment and the safety of our crews, and reducing the rig's overall environmental impact. Our innovations are valued by our customers and result in higher dayrates and utilization levels. While we build our rigs to meet the needs of our customers, we are also very conscious of the fact that our rigs are able to work for many years; therefore, in order to ensure good marketability for an extended period, we always build in additional flexibility. This adaptability allows us to move rigs easily from one play to another and from one commodity to another and means we are able to work in areas with high demand. Our capacity for improved performance, flexibility, and marketability has proven to be important over a number of years and through the ever-changing demands of the oil and gas industry. Circumstances in 2010 were no different, with a growing trend toward crude oil targets and both new and existing plays that became more profitable with advances in drilling and completion technology.

#### **2010 - WHAT A DIFFERENCE A YEAR MAKES**

At the beginning of 2010, early signs of improvement in the industry were evident. Activity was increasing from the lows experienced in 2009; however, dayrates remained weak for non-contracted rigs. Throughout the year, stabilizing credit markets and relatively strong crude oil prices contributed to growing activity levels and, as demand increased for equipment, dayrates began to rise reflecting the improving conditions. With the right style of equipment and a history of strong performance, we were able to put additional rigs to work as the year progressed and saw improvements in dayrates and gross margins, particularly towards the end of the year.

Activity levels ramped up throughout 2010 and led to results that, while largely an improvement on the previous year, do not accurately reflect the strong position in which we finished the year. In 2010, revenue and EBITDA were up 11% and 14% over 2009, respectively. Gross margins contracted from 42% in 2009 to 39% in 2010, however, as the active rig mix changed and additional repairs and maintenance costs were incurred to put rigs back into

operations. By the fourth quarter of 2010, these costs were largely behind us and dayrates, margins, and utilization levels were all improving strongly, a trend that has continued to date into 2011.

Our strategy of maintaining a blend of long-term contracts and spot market exposure over our fleet continued to pay off. During the downturn, our long-term take-or-pay contracts held fast and reduced the impact of the weak industry conditions on almost half our equipment. As conditions improved, we were also able to participate in the upside by extending contracts at higher prices as they expired and by operating the remainder of the fleet on more short-term contracts or on the spot market.

During 2010 we saw a number of important trends, some of which, such as the demand for deep, technically advanced equipment, were a continuation of trends we had seen in previous years. Other trends, meanwhile, such as the growing focus on crude oil and natural gas liquids targets, reflected the relative stability in prices for crude oil and related products. Trinidad participated in this shift to oil with approximately 40% more rigs drilling for oil or natural gas liquids in 2010 compared to 2009. We continued to achieve industry-leading utilization, thereby demonstrating our customers' preference for our equipment, the strong performance we consistently provide, and the inherent adaptability of our rigs.

In addition to reactivating existing equipment, we continued to grow our fleet. We completed the construction of five new rigs during the year, adding one of these rigs to our Canadian operations and four to our US operations. The rigs were all constructed at our in-house manufacturing facility and are backed by five-year take-or-pay contracts.

The safety of our people has always been one of our most important considerations and it is never more important than when we are ramping up activity levels so quickly. During 2010, we achieved a record number of operating days, reaching a total of 27,423 days for the year,

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The key to our outperformance is a carefully monitored combination of the right people, the right equipment, and being in the right locations. This combination takes foresight, planning and a commitment throughout the cycles.

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**38%**  
ABOVE INDUSTRY  
AVERAGE ACTIVITY

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**27,423**  
RECORD  
OPERATING DAYS

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**+ LYLE WHITMARSH**

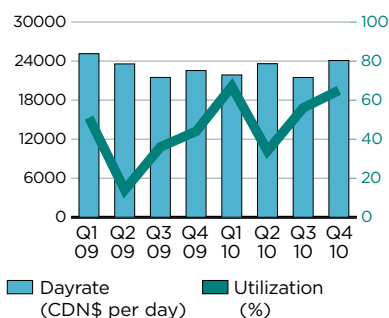
President &  
Chief Executive Officer (right)

**+ BRENT CONWAY**

Executive Vice President  
& Chief Financial Officer (left)



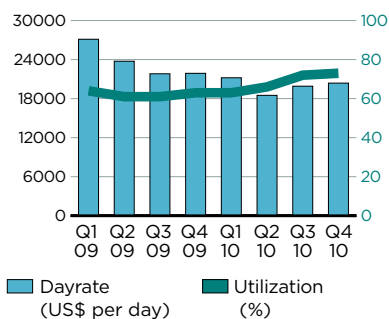
## + CANADIAN DAYRATES & UTILIZATION



an increase of more than 30% from the previous year. Despite the increase in activity and the large number of new crews that needed to be trained, we were able to reduce our Total Recordable Incident Frequency to 2.96 (down 19% from the previous year and 15% below the industry average of 3.49), an achievement we are very proud of.

While we were busy with our growing operations during the year, we were also focused on our financial position. Towards the end of 2010, we made several significant changes to our capital structure that improved our financial flexibility. We raised US\$450 million in senior unsecured notes, due in 2019, and used the proceeds to redeem our \$354 million in convertible debentures that were due in 2012. Before refinancing, we had approximately \$150 million outstanding on our term debt facility. The remainder of the long-term debt was repaid using our newly expanded revolving facility. The new credit facility includes a CDN\$200 million and a US\$100 million tranche, with extended maturity from 2012 to 2014. These changes simplify our capital structure, allow for penalty-free debt repayment, extend our maturities and better allocate our indebtedness between US and Canadian dollars.

## + US & INTERNATIONAL DAYRATES & UTILIZATION



### LOOKING INTO 2011 AND BEYOND

The first quarter of 2011 is shaping up strongly. Activity levels remain robust and demand for high-quality equipment such as Trinidad's is strong. Dayrates are continuing to show upward momentum and now, with the majority of our reactivation costs behind us, our gross margins are also increasing. Discussions with our customers and the continuing strength of crude oil prices lead us to believe that these improved industry conditions should continue into at least the first half of 2011, if not the full year.

In addition to having strong demand for our existing equipment, we are also receiving requests from our customers to build new equipment. There is particular interest in our modern, technically advanced equipment for plays where natural gas liquids content tends to be high. Our reputation and proven performance for building and operating this style of equipment position us well to be in the locations where demand is strong. Moving forward, we have decided to narrow our focus in our rig construction operations to the rig design, commissioning and development of new technology. Our operations will be limited to these areas and focus on constructing rigs for internal purposes. We will specialize in designing and building the technically advanced equipment that we are known for and will outsource specific components and core fabrication which are widely available. These changes are expected to reduce our cost structure while still enabling us to design and assemble the state-of-the-art drilling rigs that are in demand in today's drilling environment.

As we progress through 2011 and beyond, we will consider requests for new equipment and assess whether the contract terms and project returns meet our internal hurdles. We are committed to reducing debt levels relative to the size of our business and will balance our growth opportunities with our debt repayment strategy.

Overall, our performance in 2010 exceeded our expectations. Our ability to ramp up activity levels quickly, efficiently, and safely is a testament to the skilled and committed team we are fortunate enough to have at Trinidad. Having the right people on our team is a large part of Trinidad's success and we would like to thank the employees at Trinidad for their hard work this year. We would also like to express our appreciation to our Board of Directors whose leadership and guidance have directed Trinidad throughout this and several other industry cycles.

Our outlook for 2011 is for an improvement over the last year. Stronger commodity prices and industry conditions, as well as more stable equity and credit markets, provide a solid base for improved results this year. We remain concerned with the high natural gas storage levels and relatively low natural gas prices; however, the industry is showing a strong ability to refocus its development plans towards crude oil and natural-gas-liquids rich projects. This refocused industry activity, in conjunction with a number of shale gas projects that remain economic at lower natural gas prices, bodes well for continued demand in 2011. Trinidad's modern, technically advanced equipment and our reputation for top performance position us well to benefit from these stronger conditions.

On behalf of the Board of Directors,



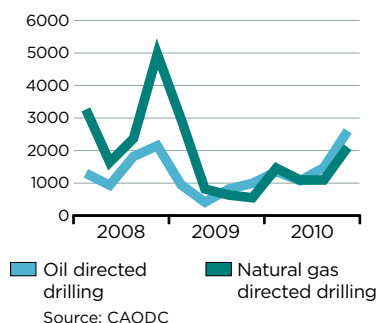
**Lyle C. Whitmarsh**  
President and  
Chief Executive Officer



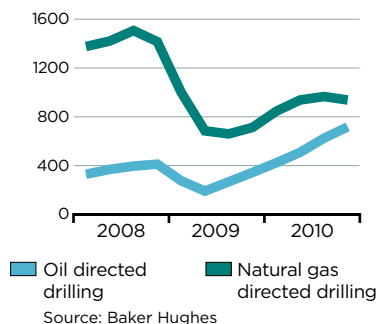
**Brent Conway**  
Executive Vice President  
and Chief Financial Officer

March 16, 2011

**+ CANADIAN OIL VERSUS NATURAL GAS DRILLING**  
(Wells completed)



**+ US OIL VERSUS NATURAL GAS DRILLING**  
(Rig count)



## OUR SCORECARD

Trinidad's business model is based on having a high-quality fleet of modern equipment that, together with our experienced and well-trained crews, provides top performance for our customers. Our reputation for consistent, high performance keeps our equipment in demand and encourages our customers to pay a premium for our equipment; improving our profitability. As we expand our operations, our strong customer relations lead to contract-backed growth and evolving rig designs that meet our customers' needs and the changing drilling environment.

	Customer-backed growth	Differentiate our fleet from the industry
 <p data-bbox="137 987 443 1045"><b>+ Our Goals</b></p>	<ul data-bbox="587 651 1008 1029" style="list-style-type: none"> <li>• Add new equipment under long-term take-or-pay contract to ensure capital payback and meet internal return hurdles.</li> <li>• Expand operations to new areas to meet customer demand.</li> <li>• Maintain a balance of long-term and short-term contracts to reduce the impact of industry cyclicality, providing stability to revenue streams while also maintaining upside exposure.</li> </ul>	<ul data-bbox="1034 651 1457 871" style="list-style-type: none"> <li>• Analyze industry trends and adjust rig designs to ensure equipment meets changing drilling environment.</li> <li>• Use new technology to improve the efficiency and safety of our equipment.</li> </ul>
 <p data-bbox="137 1302 470 1480"><b>+ Our Performance in 2010</b></p>	<ul data-bbox="587 1102 1008 1396" style="list-style-type: none"> <li>• Added five new rigs with five-year, take-or-pay contracts.</li> <li>• Expanded into several new areas, 40% increase in rigs drilling for oil or natural gas liquids.</li> <li>• Approximately 50% of rigs under long-term take-or-pay contracts; average remaining term of 1.7 years.</li> </ul>	<ul data-bbox="1034 1102 1457 1344" style="list-style-type: none"> <li>• Natural-gas powered drilling rig contract awarded; will be the benchmark in a trend towards more environmentally-friendly drilling.</li> <li>• Achieved industry-leading utilization levels demonstrating strong customer demand.</li> </ul>
 <p data-bbox="137 1743 491 1921"><b>+ Our Future in 2011 and beyond</b></p>	<ul data-bbox="587 1543 1008 1806" style="list-style-type: none"> <li>• Add three new rigs under long-term, take-or-pay contracts in 2011, potential for additional rigs depending on contract terms.</li> <li>• Ongoing expansion into the North American market as new and existing areas develop, also assessing opportunities in South America.</li> </ul>	<ul data-bbox="1034 1543 1457 1806" style="list-style-type: none"> <li>• Deliver industry trend-setting, natural-gas powered rig in 2011.</li> <li>• Narrow focus of construction division to build only internal equipment, allowing us to protect our technology and specialize in designing the technically advanced equipment for which we are known.</li> </ul>

## RECORD ACTIVITY LEVELS

## FEWER SAFETY INCIDENTS

## IMPROVED FINANCIAL FLEXIBILITY

Commitment to safety	Maintain financial flexibility	Provide investors with attractive, long-term returns
<ul style="list-style-type: none"> <li>Maintain a commitment to continuously improving safety programs, training and education.</li> <li>Use automation and new technology to improve high risk areas.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain a prudent level of debt that promotes an efficient capital structure and accommodates the industry cyclicality.</li> <li>Schedule debt maturity dates to reduce refinancing risk.</li> <li>Provide a debt structure that allows for debt repayment over the coming years.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on strong operational and financial performance to enhance stock valuation.</li> <li>Review all opportunities for long-term strategic value and accretion to existing investors.</li> </ul>
<ul style="list-style-type: none"> <li>Reduced our Total Recordable Injury Frequency by 19% to 2.96; industry average 3.49.</li> <li>Development of second drilling simulator for training on new high-tech rigs.</li> </ul>	<ul style="list-style-type: none"> <li>Simplified balance sheet with repayment of convertible debentures.</li> <li>Long-term debt maturities extended from 2012 to 2014 and 2019.</li> <li>Amended revolving credit facility, providing better foreign currency balance and penalty-free repayment ability.</li> </ul>	<ul style="list-style-type: none"> <li>Strong operational improvement in 2010, revenue and EBITDA higher, record operating days achieved.</li> <li>Paid a stable dividend of \$0.20 per share in 2010.</li> <li>Adjusted net earnings before refinancing costs up 7% compared to 2009. Net earnings were impacted by several non-cash items not expected to impact the business moving forward.</li> </ul>
<ul style="list-style-type: none"> <li>Ensure that crews have the necessary training and experience and that job processes are well defined with potential risks highlighted.</li> <li>Continue to track trends and near misses, and develop specific safety plans to reduce injuries in areas of high risk.</li> </ul>	<ul style="list-style-type: none"> <li>Balance growth opportunities with debt repayment strategies; achieve lower leverage levels through a combination of debt repayment and EBITDA growth.</li> </ul>	<ul style="list-style-type: none"> <li>Demonstrate full cash flow generation ability in 2011. Strong growth and weaker market conditions in past few years have masked this capability.</li> <li>2011 has started well with strong customer demand, high utilization, and growing dayrates.</li> </ul>

- + High Performing
- + Safety Focused
- = The Right **People**

Our ability to provide top performance for our customers comes from the combination of our experienced and well trained crews working on some of the most advanced drilling equipment in the industry.

**3,039**  
EMPLOYEES

**6.7 million**  
MANHOURS  
WORKED IN 2010

**61%**  
NATIONAL LABOUR  
ON MEXICAN RIGS

Trinidad has a common sense culture that permeates throughout the company. A significant proportion of our management team have many years of field experience and understand how things really work at the field level. This experience provides us with a strong operational focus and an awareness of how changes in the industry or our equipment might affect our crews.

Our team environment means that every person's ideas and suggestions are valued. Often the best ideas for improving performance come from our operations where the rig hands face the challenges everyday and can often find solutions that had not previously been thought of.

Our team approach is also an important part of our safety program. The crews watch out for each other and work together to reduce injuries. Rigs and crews with good safety records are recognized and rewarded. A good safety record is a winning result for our people, our company and our customers.

Our crews stay with Trinidad for our equipment and our culture, but also for opportunities to grow their careers. As a roughneck gains more experience, he is often given the opportunity to take on more senior roles on the rig and move up the ladder of responsibility. We have provided additional opportunities over the past few years to our rig hands by moving them internationally to help train national crew members.



#### OUR CREWS

A perspective from Rodney Foreman,  
General Manager of Corporate Health, Safety and Environment

Our safety staff work with the crews on the rigs, their field supervisors, and our management team on an everyday basis to make sure every person remembers the importance of safety in every job they do. We have made some good improvements over the past few years and our number of safety incidents has come down to reflect this. But, we are not satisfied yet. Even though our safety statistics are better than the industry average, we are always looking for ways to keep our crews safer and we will keep finding ways to improve our processes.



+ Crew from rig #106 celebrating one year with no work injuries.

A good crew is one of the most important parts of running a high performing rig. A crew that works well together and has good experience and strong skills can make an older, less advanced rig perform well. By putting this same crew on a modern, highly automated rig the impact is even more pervasive. We work hard to put these two factors together so we can maintain our reputation for top performance.

The three important steps in making this happen are:

**+ Attracting the best people**

Our reputation for providing modern equipment that performs tasks more safely and efficiently is an attractive feature for rig hands. As well, this style of rig tends to be more in demand, giving it a higher utilization level and the crew more steady work.

**+ Providing training to help crews work safely and effectively**

From the very first day at Trinidad, safety is a key factor that is continuously brought to the attention of the crews. We provide ongoing safety instruction; in particular, if there are near misses or trends in high-risk areas or processes. We do this through hands-on instruction, job process documentation, and drilling simulation technology.

**+ Retaining crews through the cycles**

We encourage experienced rig hands to stay with Trinidad by rewarding them for good performance and by providing opportunities to progress. In addition, our high level of long-term contracts mean our equipment tends to keep working, even when industry activity levels decrease.

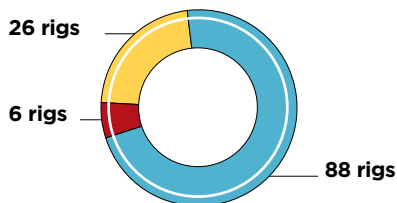
Our people are the reason for Trinidad's reputation of high performance. Without good crews, our modern, technically advanced rigs would not perform at the high level our customers have come to expect from Trinidad.



+ Innovative Technology  
 + Improved Efficiency  
 = The Right **Equipment**

Our rigs are built to meet the demands of today's drilling environment, but we are not satisfied yet. We continue to adapt our designs to meet new and existing challenges, making our equipment some of the most technically advanced, safest, and best performing in the industry.

**+ FLEET SPLIT BY TYPE\***



- High performance, high mobility, advanced drilling controls
- Top drive, some automation, horizontal capable
- Conventional rig, mechanical controls, predominately shallow drilling

\* Includes three rigs under construction

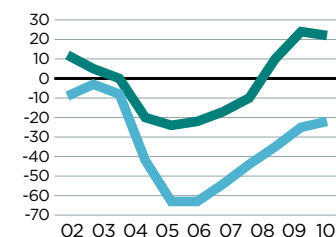
One of the key drivers for change in rig designs over the past few years has been the changing drilling environment. Wells are becoming deeper and more technically challenging to drill; having the style of equipment that can perform well in these conditions is paramount. We saw these trends in the industry early and began to build our rigs to meet these demands. As a result, we have assembled one of the deepest and most technically advanced fleets in the industry. By getting there early, we have gained valuable experience and have established a reputation as one of the leading drillers for these types of wells.

Our advancements have not only been towards having the right style of rig for today's drilling needs, but also about finding ways to do our work more efficiently and safely. By adding automation to our rigs in a number of different areas, we have sped up the drilling process, reduced the risk to our crews, and lowered our impact on the environment.

Our rigs are not the cheapest by the day; however, the improved efficiency of our equipment allows for faster drilling, saving the customer money on overall well costs. The drilling rig typically represents only 40 percent of the total daily costs for the oil and gas company. Any cost saving due to a reduction in drilling time is magnified for the operator when they consider their overall savings. This is why customers sign up our rigs for long-term contracts and why we are able to consistently achieve industry-leading utilization.

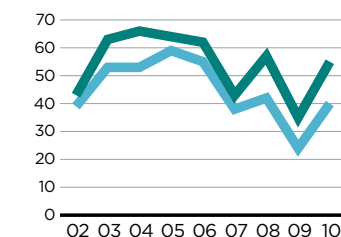
**85%**  
 MORE HORIZONTAL  
 DRILLING IN 2010

**+ US ACTIVE RIG COUNT**  
 (% change since peak)



■ Industry      ■ Trinidad  
 Source: Rigdata  
 Rigdata considers 10/03/08 the industry peak with 2,374 active rigs.

**+ CANADIAN UTILIZATION RATES (%)**



■ Industry Utilization      ■ Trinidad's Canadian Utilization  
 Source: CAODC



## OUR EQUIPMENT

A perspective from Adrian Lachance, Chief Operating Officer, US Operations and Manufacturing

Like many of us at Trinidad, having started off in the field gives me a good appreciation of where the challenges lie in our operations. We look for changes we can make to our equipment that will not only improve our performance for our customers but also keep our crews safer. Sometimes it's a big change like developing a moving system to automate rig moves but sometimes it is a few small things that can make a big difference. Keeping our eyes open for these opportunities is what makes our rigs some of the industry's leading performers.

## OUR MODERN, TECHNICALLY ADVANCED EQUIPMENT

### PERFORMS WELL IN THE NEW DRILLING ENVIRONMENT



#### AC drawworks

Provides precise control over the rig's drilling speed and the weight on the drill bit, giving better performance with less risk of damage to the formation.



#### Top drive

Allows for increased torque and the ability to perform at faster speeds, providing improved control and better drilling results.



#### Integrated control system

Integrating the control of key pieces of equipment allows the driller to monitor downhole conditions in real time and to be able to respond to problems quickly.

### IMPROVES EFFICIENCY AND SAFETY



#### Automated pipe handling

Uses hydraulics and wireless controls to move drill pipe and other tubulars to and from the drill floor, increasing the speed of operations and improving safety.



#### Iron roughneck and pipe spinner

Automates the process of making connections with drill pipe and other tubulars, keeping rig hands away from a high-risk activity.



#### Moving system

Allows the rig to skid from one well location to the next without disassembling and reassembling, significantly reducing downtime and improving safety.

+ Adaptable Equipment

+ Customer Focused

= The Right **Locations**

Building in flexibility to our rigs to cope with the evolving drilling environment and maintaining our reputation for top performance is how we keep our rigs in the right locations.

**53%**  
OF FLEET IN US  
AND MEXICO

**47%**  
OF FLEET IN CANADA

**60 rigs**  
UNDER LONG-TERM  
CONTRACT

An important part of our strategy is building equipment that can work where our customers need it today and in the future. It may sound like a simple concept but with commodity price swings and technology opening up new areas, the active plays of today are not always the active plays of tomorrow. Our crystal ball is no clearer than anyone else's, so we rely on our operational expertise and the strong relationships we forge with our customers to help us locate to the right areas.

We have always remained close to our operations, and our hands-on experience in the field means that we know what to look for and how to identify trends in the industry. These trends are incorporated into our rig designs and allow us to continuously improve our rigs. We are aware that these rigs will be working for a long time and that the flexibility and innovations we incorporate upfront will help our rigs' marketability over the long term.

Our customers have come to know that Trinidad has the equipment and the experience to drill their deep, technically challenging wells. As these companies grow and expand their operations, they need to bring drilling equipment into new areas with them. This is when they turn to a driller they can rely on for top performance. The strong relationships we have built with our customers and our reputation as an industry leader mean we are often their driller of choice.



#### OUR CUSTOMERS

A perspective from Jason Clemett,  
Senior Vice President of Sales and Marketing

We have worked with some of our key customers for many years and have proven our ability to get the job done for them safely and efficiently. On many occasions they have moved our rigs from one area, or even one country to another so they can have the rig they want and the performance they expect. By working together to produce the best results, we have built a strong partnership that benefits both companies and puts our equipment in areas of high demand.

## RIG #54

+ ALBERTA, CANADA  
to HAYNESVILLE, LOUISIANA

Age \_\_\_\_\_ 3 years  
Type \_\_\_\_\_ Triple  
Horsepower \_\_\_\_\_ 1500 HP

## RIG #73

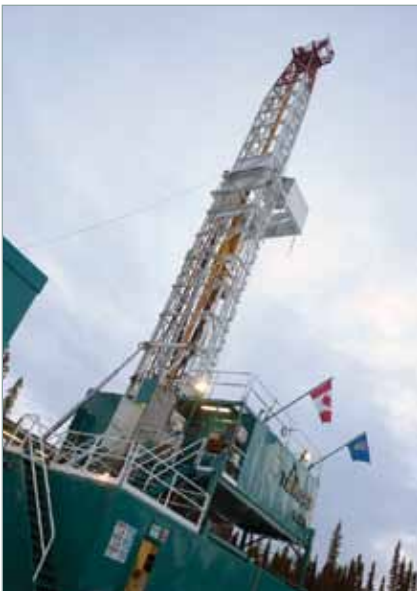
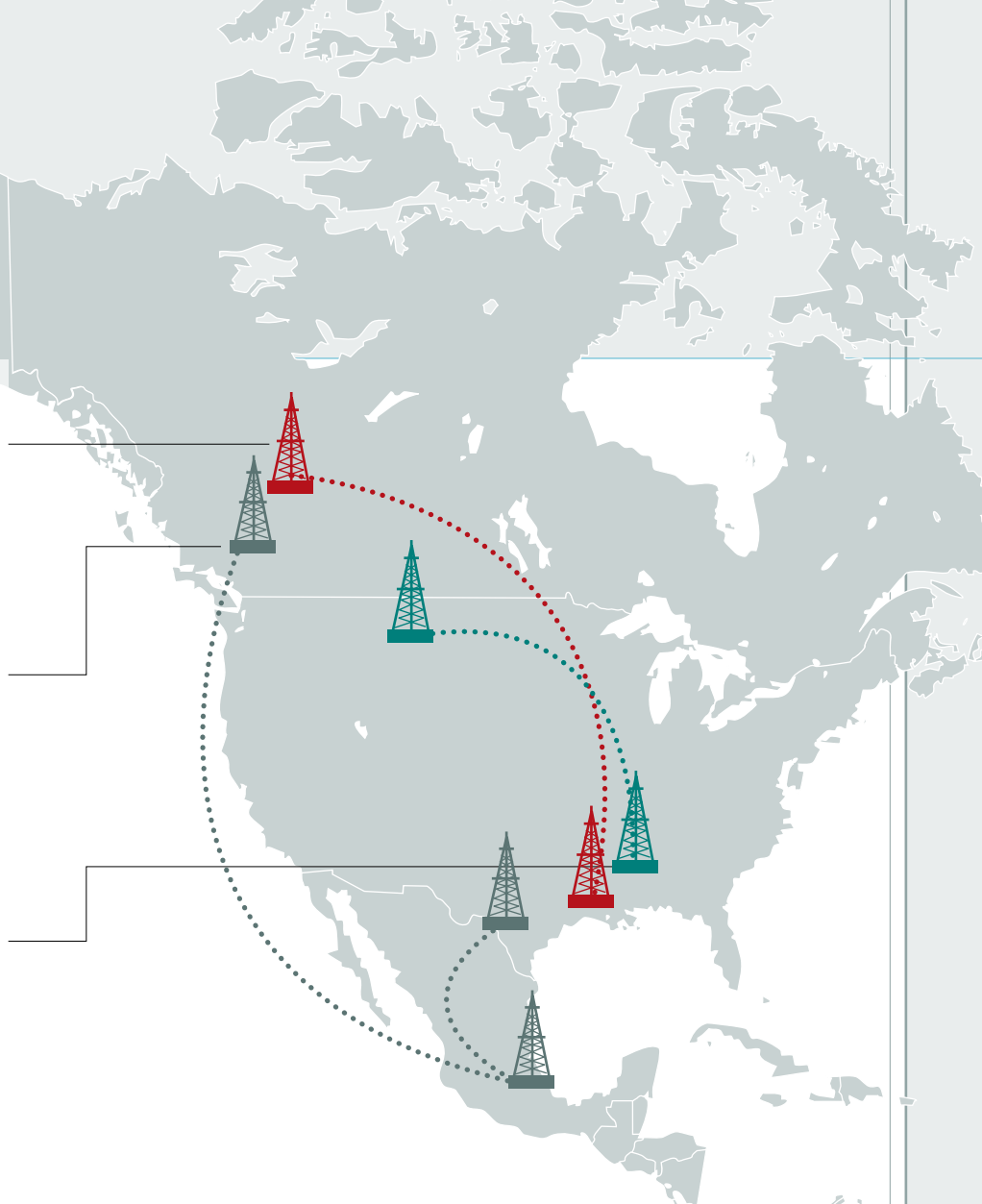
+ ALBERTA, CANADA  
to POZA RICA, MEXICO  
to WOLFBERRY, TEXAS

Age \_\_\_\_\_ 10 years  
Type \_\_\_\_\_ Heavy double  
Horsepower \_\_\_\_\_ 700 HP

## RIG #118

+ HAYNESVILLE, LOUISIANA  
to BAKKEN, NORTH DAKOTA

Age \_\_\_\_\_ 3 years  
Type \_\_\_\_\_ Triple  
Horsepower \_\_\_\_\_ 1200 HP



Our equipment is flexible in terms of where it works and what it drills. Its deep drilling capacity and high horsepower mean our rigs can move to most plays and perform well. They can also drill an oil well just as easily as a natural gas well.

**40%**  
MORE RIGS  
DRILLING  
FOR OIL AND  
NATURAL GAS  
LIQUIDS IN 2010



## = Strong operational performance

### OUR DRILLING ENVIRONMENT

The past year saw a number of changes in the North American drilling industry; some were driven by economic factors while others were the result of advancing technology. Stabilizing credit markets provided oil and gas developers with more confidence in reactivating their drilling programs, which resulted in increased activity levels. In addition, relatively strong crude oil prices resulted in a shift towards oil or natural gas liquids directed drilling. Drilling and completion practices previously used in unconventional developments, such as horizontal drilling and fracing, were expanded into existing conventional-style plays. These new techniques, along with increasingly automated drilling equipment, improved the results for oil and gas companies and led to increased activity for oilfield services. We participated in these positive industry changes in 2010, and our high-quality, technically advanced fleet is positioned well for the ongoing positive momentum we are seeing to date in 2011.

## OUR OPERATIONS AND PERFORMANCE

Increasing activity and demand led to improving results in 2010

+ REVENUE UP **11%**  
+ EBITDA UP **14%**  
+ OPERATING DAYS UP **31%**

+ ADJUSTED NET EARNINGS  
BEFORE REFINANCING  
COSTS UP **7%**

2011 expected to be an improvement over the past two years

### CANADA

#### 55 land drilling rigs

890 employees

Utilization levels grew in 2010 to 55% (35% in 2009). Fleet increased from 52 to 55 rigs; three redeployed from Mexico, one removed from service and one newly constructed rig added.

#### 22 well service rigs

139 employees

Utilization levels grew in 2010 - 47% (30% in 2009).

#### 20 pre-set and coring rigs

79 employees

Activity growing with strengthening oil prices. Expect winter 2010/2011 to be stronger.

#### In-house rig manufacturing facility

267 employees

Constructed five new technically advanced deep capacity rigs for internal purposes.

### UNITED STATES AND INTERNATIONAL

#### US - 59 land drilling rigs

1,355 employees

#### Mexico - 3 land drilling rigs

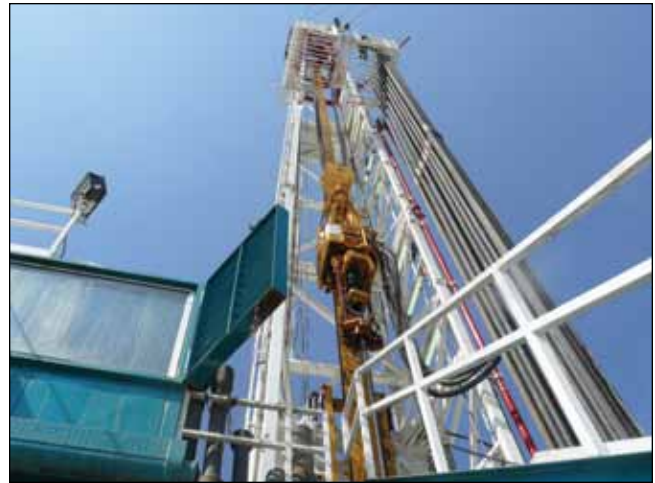
80 employees

Utilization levels grew in 2010 to 68% (63% in 2009). Fleet decreased from 66 to 62 rigs; three redeployed from Mexico to Canada, four removed from service, one Chilean rig sold and four newly constructed rigs added.

#### US barge drilling - 5 rigs

229 employees

Utilization levels grew in 2010 to 90% (78% in 2009). Fleet increased from four to five rigs.



## OUR OPPORTUNITIES

### **New drilling techniques reignite old plays**

The growing use of new drilling practices, such as drilling long-reach horizontal wells combined with new completion techniques, has created a rush of activity back to plays that had originally been drilled many years ago. These new techniques can often improve the producing capacity of the wells, and oil and gas companies across North America have started reevaluating their portfolios with these changes in mind. This style of drilling typically requires a rig that can drill to 3,200 metres (10,500 feet) or deeper, has large mud-pumping capacity and a top drive. With an average depth capacity of 3,700 metres (12,000 feet) and a modern fleet, Trinidad is well situated to take advantage of these changes.

### **Reducing the seasonality in Canada; improving performance everywhere**

The use of moving systems has reduced downtime between wells and increased the number of possible operating days across North America. Rigs equipped with a moving system can skid between locations without the use of trucks, reducing the time between locations from days to a matter of hours. In addition, in Canada, the moving system reduces the impact of spring break-up and allows the rig to drill year round. This improved efficiency gets our customers' production on stream more quickly and cash flow is generated sooner. Operators recognize these benefits and demand for this equipment is growing. Before these systems were used, anything greater than 220 operating days in a year for a Canadian rig was considered a good year; now our rigs can

work year round. These types of changes improve our profitability and help the Canadian market compete with US and international operations, where seasonality is less noticeable.

### **Organic growth**

We have three new high-tech, contracted rigs scheduled to be built in 2011; two will be added to our US fleet and one to our Canadian fleet. In addition, we are receiving many requests from our customers for new equipment that can perform well in today's market. We expect that we will continue to grow our fleet and back up our growth with long-term take-or-pay contracts. We will be selective in the opportunities we choose to ensure that our internal return rates are met, that equipment remains marketable over the long term, and that we balance our growth with our debt reduction strategy.

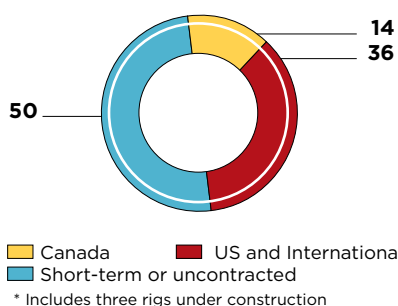
### **International expansion**

We continue to look internationally for expansion opportunities, particularly towards South America. Our Mexican and Chilean operations have given us valuable experience in this part of the world and we believe that there are a number of possibilities that may be considered in the future. We have established a good network of contacts in several South American countries and our reputation for high-quality equipment and top performance is becoming increasingly recognized. As always, we will continue to review any opportunities thoroughly, acknowledging that those involving a move into a new operating area or country require more intensive research and risk evaluation.

## = Strategic capital management

Trinidad is a growth company operating in a cyclical industry. These two factors play a key part in determining our capital management strategy. To manage these factors, we aim to maintain a flexible balance sheet so that we can have access to capital in order to grow, while also making sure we remain within parameters that take into account the industry ups and downs that can significantly impact the our cash flow levels.

### + CONTRACTS\* (% of fleet)



### Reducing the impact of industry cyclicity

We reduce the impact of the industry cyclicity by signing a large proportion of our equipment under long-term take-or-pay contracts. We generally look to have 40% to 60% of our fleet under this style of contract, with a remaining term either side of two years, depending on where we are in the industry cycle. This strategy protects a portion of our revenue stream and provides upside exposure on the remainder of the fleet.

In addition to protecting our revenue stream, we use contracts when we build new equipment. Typically, these contracts are three to five years in term and provide us with a guaranteed payback of our initial capital investment and certainty in achieving our internal project returns.

At the end of 2010, we had approximately 50% of our fleet under long-term, take-or-pay contracts, with an average term remaining of 1.7 years.

### Improving flexibility

In December 2010, we refinanced our balance sheet. We redeemed our convertible debentures that had been due to mature in 2012, we refinanced our term facilities also due in 2012, and we amended and extended our revolving credit facilities. The combination of these changes improved our financial flexibility in a number of areas:

- + We extended the maturity term on our debt facilities from 2012 to 2014 and 2019, providing us with additional term before repayment and clear visibility for a number of years;
- + We increased our US dollar denominated debt to better match our US dollar exposure with our growing US and international operations;
- + We improved our capacity for penalty-free debt repayment by replacing our term debt with a larger revolving facility; and
- + We simplified our balance sheet by redeeming our convertible debentures.



### Dividend payment

Throughout the past years and the ups and downs in the industry, we have continued to pay a dividend to our shareholders. We understand the importance of yield to a number of our investors and are not deterred by the discipline that paying a dividend instills.

### Future debt targets

At the end of 2010, our total debt to EBITDA was higher than we would expect it to be in the future as it reflected the completion of our recent seven-rig construction program and the weak industry conditions over the past two years. Moving forward, we will be working to bring that metric down. We see our path to lower leverage levels coming by way of two methods: firstly, through growing our business and our EBITDA levels -- a path we are already moving towards with our additional rigs in 2010 and 2011 which add to the cash flow generation ability of the company; and, secondly, through debt repayment. We expect to balance our growth opportunities over the coming years to accommodate both methods of debt reduction.

### Revised long-term debt structure

Facility	Funds available	Drawn at Dec 31, 2010	Maturity Date	Debt Rating (S&P/Moody's)
Revolving credit facility – CDN\$	CDN\$200 million	CDN\$120 million	December 2014	Not rated
Revolving credit facility – US\$	US\$100 million	US\$50 million	December 2014	Not rated
Senior unsecured notes	US\$450 million	US\$450 million	January 2019	BB-/B2
Corporate rating				BB-/B1

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**1.7 years**  
AVERAGE CONTRACT  
TERM REMAINING

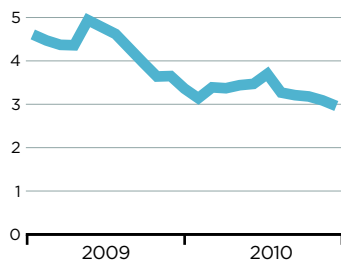
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## = Good corporate citizen

### HEALTH AND SAFETY

Maintaining the safety of our crews is one of the most important aspects of our operations and one that we are constantly looking to improve. Having modern, automated equipment goes a long way in keeping our crews out of harm's way; however, it is still essential to have a thorough safety program and well-trained crews to truly capture that advantage.

#### + TOTAL RECORDABLE INJURY FREQUENCY



In 2010, we reduced our Total Recordable Injury Frequency (TRIF) to 2.96, down from 3.65 at the end of 2009 and 15% better than the industry average of 3.49. This is a significant achievement at any time; but, considering the ramp-up in activity over the past year and that Trinidad worked a record number of operating days in 2010, it is even more impressive.

A number of factors worked together to help us reduce our safety incidents in 2010, such as:

- + Developing and implementing a more structured approach to managing our safety program, which encouraged safety personnel and field supervisory staff to develop specific safety reviews and audits for crews and equipment training and helped in identifying areas for potential injury.
- + Following the identification of high-risk areas and trends of unsafe practices, safety personnel developed specific education and training to highlight these risks to the crews and change any unsafe practices before they could cause injury or damage to equipment.
- + The development of a Health, Safety and Environment (HSE) leadership committee in 2010 demonstrated upper management and our board of directors' commitment to maintaining a high standard of safety and environmental management. This committee is responsible for setting the corporate direction for HSE, for approving annual HSE initiatives, and for following up on the progress of these initiatives.

In 2011, we are implementing a number of programs that will target areas where we have seen the need for increased education or training; these include a hand injury prevention program and a job planning procedure that focuses on increasing efficiency and safety. Moving forward, we will continue to make safety a core value and look for ways to further reduce our safety incidents.





#### + BOARD OF DIRECTORS

Michael E. Heier, Chairman;  
Naveen Dargan, Director;  
Brock Gibson, Director;  
Lewis W. "Jody" Powers, Director;  
Ken Stickland, Lead Director;  
Lyle C. Whitmarsh, President and CEO.

### ENVIRONMENTAL MANAGEMENT

We are committed to reducing the impact of our operations on the environment. Having a modern, well-maintained fleet is a large step in environmental protection for a drilling contractor. We have a rigorous and well-planned preventative maintenance program that allows our rig engines and hydraulic equipment to run at their optimum levels, minimizing air pollution and fluid leakage. In addition, we fit some of our equipment with high-grade mufflers which reduce noise pollution, particularly in areas where we are operating near highly populated locations.

In 2011, we will be building a new rig bound for the Horn River in northeastern British Columbia. This rig will be powered by natural gas rather than the more typical diesel fuel, reducing the emissions from the rig's operations significantly. The rig will use natural gas that is produced in the area and treated on-site to power the rig. We believe that this rig will be a benchmark for other drillers in the industry and we expect to see a growing trend of more environmentally friendly drilling processes and equipment.

### CORPORATE GOVERNANCE

We believe strongly in conducting our business with the highest standards of responsibility, integrity, and compliance with all laws. This ongoing commitment is backed by an independent and fully informed board of directors and by comprehensive processes and policies.

Our board of directors has established several committees to oversee important areas of our business. These committees are all comprised of independent directors who meet regularly to discuss relevant issues and information. In addition to the general direction our board of directors provide, these committees provide specific guidance relating to their areas of responsibility. Our committees are made up of the audit committee, the corporate governance and nominating committee, the environment, health and safety committee and the human resources and compensation committee.



Our well maintained, highly automated equipment keeps our crews safer while also reducing our impact on the environment.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) of 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"). This MD&A discusses the operating and financial results for the three and twelve months ended December 31, 2010 and is dated March 2, 2011 and takes into consideration information available up to that date. The MD&A is based on the annual Consolidated Financial Statements of Trinidad for the year ended December 31, 2010, which were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The MD&A should be read in conjunction with the annual Consolidated Financial Statements and the related notes contained in this report. Additional information is available on Trinidad's website ([www.trinidaddrilling.com](http://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](http://www.sedar.com)).

As a result of Trinidad's conversion from Trinidad Energy Services Income Trust (the "Trust") to a corporation, effective March 10, 2008, references to the "Company", "shares", the "Incentive Options Plan", "options" and "dividends" should be read as references to the "Trust", "units", "Unit Rights Incentive Plan", "rights" and "distributions" respectively, for the periods prior to March 10, 2008. 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)

	2010	2009	% Change *	2008	% Change *
Revenue	<b>646,658</b>	582,591	11.0	757,900	(14.7)
Gross margin <sup>(1)</sup>	<b>252,095</b>	246,742	2.2	309,495	(18.5)
Gross margin percentage <sup>(1)</sup>	<b>39.0%</b>	42.4%	(8.0)	40.8%	(4.4)
EBITDA <sup>(1)</sup>	<b>187,107</b>	164,507	13.7	287,470	(34.9)
Per share (diluted) <sup>(2)</sup>	<b>1.55</b>	1.52	2.0	3.16	(50.9)
Adjusted EBITDA <sup>(1)</sup>	<b>198,146</b>	193,511	2.4	256,457	(22.7)
Per share (diluted) <sup>(2)</sup>	<b>1.64</b>	1.79	(8.4)	2.82	(41.8)
Cash flow from operations	<b>119,420</b>	107,080	11.5	210,782	(42.7)
Per share (basic) <sup>(2)</sup>	<b>0.99</b>	0.99	–	2.32	(56.9)
Per share (diluted) <sup>(2)</sup>	<b>0.99</b>	0.99	–	2.32	(56.9)
Cash flow from operations before change in non-cash working capital <sup>(1)</sup>	<b>146,581</b>	144,526	1.4	207,121	(29.2)
Per share (diluted) <sup>(2)</sup>	<b>1.21</b>	1.34	(9.7)	2.28	(46.9)
Net earnings (loss)	<b>(82,133)</b>	(22,439)	(266.0)	82,174	(200.0)
Per share (basic) <sup>(2)</sup>	<b>(0.68)</b>	(0.21)	(223.8)	0.90	(175.6)
Per share (diluted) <sup>(2)</sup>	<b>(0.68)</b>	(0.21)	(223.8)	0.90	(175.6)
Adjusted net earnings <sup>(1)</sup>	<b>12,193</b>	29,754	(59.0)	89,315	(86.3)
Per share (diluted) <sup>(2)</sup>	<b>0.10</b>	0.28	(64.3)	0.98	(89.8)
Adjusted net earnings before refinancing costs <sup>(1)</sup>	<b>31,795</b>	29,754	6.9	89,315	(64.4)
Per share (diluted) <sup>(2)</sup>	<b>0.26</b>	0.28	(7.1)	0.98	(73.5)
Capital expenditures (including acquisitions)	<b>139,640</b>	162,563	(14.1)	277,901	(49.8)
Net debt <sup>(1)</sup>	<b>479,343</b>	456,849	4.9	559,360	(14.3)
Shares outstanding – basic (weighted average) <sup>(2)</sup>	<b>120,840,962</b>	107,915,093	12.0	90,804,564	33.1
Shares outstanding – diluted (weighted average) <sup>(2)</sup>	<b>120,840,962</b>	107,915,093	12.0	91,003,946	32.8

\*Represents the change from 2010.

(1) Readers are cautioned that gross margin, gross margin percentage, EBITDA, Adjusted EBITDA, cash flow from operations before change in non-cash working capital, Adjusted net earnings, Adjusted net earnings before refinancing costs and net debt and the related per share information do not have standardized meanings prescribed by GAAP – see "Non-GAAP Measures".

(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 deemed conversion of convertible debentures and the number of shares issuable pursuant to the Incentive Option Plan.

## OPERATING HIGHLIGHTS

For the years ended December 31,	2010	2009	% Change*	2008	% Change*
<b>Land Drilling Market</b>					
Operating days – drilling					
Canada	10,842	7,066	53.4	12,196	(11.1)
United States and International <sup>(1)</sup>	16,581	13,889	19.4	15,076	10.0
Rate per drilling day					
Canada (CDN\$)	22,693	23,315	(2.7)	23,827	(4.8)
United States and International (CDN\$) <sup>(1)</sup>	19,996	23,336	(14.3)	23,098	(13.4)
United States and International (US\$) <sup>(1)</sup>	19,333	20,189	(4.2)	22,006	(12.1)
Utilization rate – drilling					
Canada	55%	35%	57.1	57%	(3.5)
United States and International	68%	63%	7.9	85%	(20.0)
CAODC industry average	40%	24%	66.7	42%	(4.8)
Number of drilling rigs at year end					
Canada	55	52	5.8	57	(3.5)
United States and International	62	66	(6.1)	56	10.7
Utilization rate for service rigs	47%	30%	56.7	46%	2.2
Number of service rigs at year end	22	22	–	23	(4.3)
Number of coring and surface casing rigs at year end	20	20	–	20	–
<b>Barge Drilling Market</b>					
Operating days	1,442	1,136	26.9	1,285	12.2
Rate per drilling day (CDN\$)	24,206	29,971	(19.2)	44,387	(45.5)
Rate per drilling day (US\$)	23,413	25,614	(8.6)	42,358	(44.7)
Utilization rate <sup>(2)</sup>	90%	78%	15.4	93%	(3.2)
Number of barge drilling rigs at year end	2	1	100.0	1	100.0
Number of barge drilling rigs under Bareboat Charter Agreements at year end	3	3	–	3	–

\* Represents the change from 2010.

(1) Trinidad commenced its operations in Mexico effective November 2008 and expanded its international operations into Chile effective August 2009.

(2) During the first quarter of 2008, Trinidad completed significant work to one of its barge rigs and as a result it was removed from service and not included in the utilization calculation for that quarter.

## 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. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A may contain forward-looking information and statements pertaining to the completion of announced rig construction programs on a timely basis and on economical terms; the assumption that Trinidad's customers will honour their take-or-pay contracts; 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; 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 capital expenditure programs and other 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 foreign currency exchange rates and interest rates; the existence of regulatory and legislative uncertainties; the possibility of changes in tax laws; and general economic conditions including the capital and credit markets. Trinidad cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. 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**

This MD&A contains references to certain financial measures and associated per share data that do not have any standardized meaning prescribed by Canadian GAAP 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 gross margin, gross margin percentage, EBITDA (as defined in Non-GAAP Measures Definitions section), Adjusted EBITDA, cash flow from operations before change in non-cash working capital, Adjusted net earnings, Adjusted net earnings before refinancing costs, net debt and working capital. Please see the Non-GAAP Measures Definitions section of this MD&A for details with respect to definitions of these non-GAAP measures.

## **RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS**

Management is responsible for the information disclosed in this MD&A and the accompanying 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 annual consolidated financial statements.

## **PROFILE**

Trinidad is a growth-oriented corporation whose common shares trade on the Toronto Stock Exchange (TSX) under the symbol TDG. Trinidad's divisions operate in the drilling, well-servicing, coring and barge-drilling sectors of the North American oil and natural gas industry, with operations in Canada, the United States and Mexico. 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**

In 2010, Trinidad recorded strong results as a result of increased customer demand and improving industry conditions during 2010. During the year, operating days reached record levels and revenue, EBITDA (as defined in the Non-GAAP Measures definitions section) and adjusted net earnings before refinancing costs (as defined in the Non-GAAP Measures definitions section) showed improvements over the levels recorded in the previous year. A relatively weaker start to 2010 followed by a ramp up in activity throughout the year, led to results that while predominantly an improvement over the previous year, do not accurately reflect the strong position in which the Company finished the year.

During 2010, Trinidad saw a number of important trends, some of which, such as the demand for deep, technically advanced equipment were a continuation of trends the Company has seen in previous years. Other trends, meanwhile, such as the growing focus on crude oil and natural gas liquids targets, reflected the strong prices for crude oil and related products. During 2010, crude oil prices improved 28.9% from 2009 to average \$79.48 per barrel compared to an improvement of 10.4% and an average price of \$4.37 per mmBtu for natural gas. Trinidad participated in this shift to oil with approximately 40% more rigs drilling for oil or natural gas liquids in 2010

compared to 2009. The Company continued to achieve industry-leading utilization; demonstrating customer satisfaction with its equipment, the strong performance its rigs and crews consistently provide and the ease in which its rigs can move between plays and commodities.

Trinidad's revenue for the year increased by 11.0% to \$646.7 million compared to 2009, largely driven by increased operating days and partly offset by slightly lower dayrates. Trinidad's total operating days increased by 30.9% in 2010 to a record level of 27,423 days compared to 20,955 days in 2009. Operating days were up in both Canada and the US and international divisions due to increased customer demand and the addition of five new rigs. The Company completed the construction of these new rigs during the year, one of which was added to the Canadian operations and the remaining four were added to the US operations. The rigs were all constructed at Trinidad's in-house manufacturing facility and are backed by long-term, take-or-pay contracts.

The Company's strategy of maintaining a blend of long-term contracts and spot market exposure over its fleet continued to pay off. During the downturn, Trinidad's long-term, take-or-pay contracts held fast and reduced the impact of the weak industry conditions on almost half its equipment. As conditions improved, the Company was also able to participate in the upside by extending contracts at higher prices as they expired and by operating the remainder of the fleet on shorter-term contracts. Compared to 2009, average dayrates in 2010 in Canadian and US and international drilling divisions were down 2.7% and 4.2%, respectively, in their originating currency, as the benefit of participating in improved dayrates on the spot market wasn't realized until the later part of the year. As the active rig count increased in 2010, a higher proportion of shallower rigs and rigs working on the spot market were put back into operation; these rigs tend to generate lower dayrates than the deeper, largely contracted rigs that worked more exclusively throughout 2009 and lower the overall average dayrate. In addition, a weaker US dollar in 2010 negatively impacted revenue levels compared to the previous year. On average in 2010, the US/CAD exchange rate was \$1.030 compared to \$1.142 in 2009.

In 2010, Trinidad's gross margin percentage (as defined in the Non-GAAP Measures definitions section) decreased to 39.0% from 42.4% in 2009. This decrease was largely driven by slightly lower dayrates due to a change in Trinidad's active rig mix, as well as increased repairs and maintenance, safety and training costs associated with reactivating a large portion of the fleet. By the fourth quarter of 2010, these costs were largely complete and dayrates, gross margins and utilization levels had improved substantially.

Adjusted net earnings (as defined in the Non-GAAP Measures definitions section) were \$12.2 million or \$0.10 per share (diluted) for 2010 in comparison to \$29.8 million or \$0.28 per share (diluted) in 2009, driven largely by higher depreciation and amortization expenses and additional interest costs associated with the refinancing of the Company's debt facility. Depreciation and amortization costs increased as a result of the higher number of operating days in 2010 compared to 2009. Excluding the non-recurring refinancing costs of \$19.6 million that were incurred in the year, adjusted net earnings before refinancing costs were \$31.8 million compared to \$29.8 in 2009 or \$0.26 and \$0.28 per share (diluted), respectively.

Trinidad recorded a net loss of \$82.1 million or \$0.68 per share (diluted) in 2010 compared to a net loss of \$22.4 million or \$0.21 per share (diluted) in 2009. In addition to the factors mentioned above, net earnings were negatively impacted by several non-cash charges including an impairment of goodwill recorded on the Company's construction division and an impairment of capital assets recorded on four land drilling rigs in 2010 (see the Impairment of Goodwill and Impairment of Capital assets section of this MD&A for further details). Given the decision to narrow the focus of the Company's rig construction division to internal rig building for all future construction, Trinidad recognized an impairment charge of \$58.5 million on the goodwill associated with this division. Trinidad also recorded a \$23.8 million impairment charge relating to the value of four land drilling rigs that the Company felt were no longer marketable for operations. The rigs were written down to an estimated recoverable amount. Partly offsetting these factors was a gain on sale of assets in 2010 of \$3.3 million compared to a loss of \$10.5 million in 2009, a lower charge for impairment of intangible assets of \$0.9 million in 2010 compared to \$23.2 million in 2009, and a smaller foreign exchange loss of \$7.1 million compared to \$24.6 million in 2009 and a decline in taxes of \$3.3 million.

During 2010, Trinidad made several significant changes to its capital structure that improved its financial flexibility. The Company raised US\$450 million in senior unsecured notes, due in 2019 and used the proceeds to redeem its \$354 million in convertible debentures that were due in 2012. Before refinancing, the Company has approximately \$150 million outstanding on its term debt facility. The remainder of the long-term debt was repaid using the Company's newly expanded revolving facility. The new credit facility includes a CDN\$200 million and a US\$100 million tranche (now due 2014). These changes simplify the Company's capital structure, allow for penalty-free debt repayment, extend the debt maturities and better allocate the Company's indebtedness between US and Canadian dollars.

The past 12 to 18 months have clearly demonstrated the ever-changing environment of the oil and gas industry and Trinidad's ability to outperform throughout its cycles. In 2009, the industry saw one of the sharpest contractions in activity levels in its history followed by a strong rebound in 2010. The positive industry momentum appears to be continuing into 2011 and with a fleet of high quality equipment; a reputation for top performance and improved financial flexibility, Trinidad is well positioned to perform well in the improved market conditions.

## RESULTS OF OPERATIONS

### Canadian Drilling Operations

For the years ended December 31,

(\$ thousands except percentages and operating data)

	2010	2009	% Change
Revenue	284,254	196,505	44.7
Operating expense	181,949	120,322	51.2
Gross margin	102,305	76,183	34.3
Gross margin percentage	36.0%	38.8%	
Operating days – drilling	10,842	7,066	53.4
Rate per drilling day (CDN\$)	22,693	23,315	(2.7)
Utilization rate – drilling	55%	35%	57.1
CAODC industry average	40%	24%	66.7
Number of drilling rigs at year end	55	52	5.8
Utilization rate for service rigs	47%	30%	56.7
Number of service rigs at year end	22	22	–
Number of coring and surface casing rigs at year end	20	20	–

In 2010, Trinidad's Canadian drilling segment achieved higher utilization, revenue and gross margin as activity levels increased throughout the year. Demand for drilling equipment grew as the year progressed, particularly for crude oil or natural-gas-liquids rich directed drilling. During 2010, according to the Canadian Association of Oilwell Drilling Contractors (CAODC) the number of wells drilled in western Canada in the year increased to 13,575 wells, up 45.2% from the number of wells completed in 2009. Of these wells, 48.0% were oil-directed, a significant increase over the 38.0% recorded in 2009, reflecting the relatively stronger and more stable oil prices in 2010. Drilling in the unconventional shale plays in north eastern British Columbia and north western Alberta also remained active during 2010. Technological advancements in drilling and completion practices, as well as growing experience levels have led to improved efficiencies in these areas and assist in making these plays economic, even at lower natural gas prices. Trinidad's modern, high quality equipment and reputation for top performance in all facets of the drilling industry is reflected in the Company's improving results and industry-leading utilization in 2010.

Revenue in 2010 totalled \$284.3 million compared to \$196.5 million in 2009, an increase of 44.7%. The strong increase in revenue in 2010 was largely driven by higher operating days and partly offset by slightly lower dayrates. In 2010, operating days grew to 10,842 days, up 53.4% from 2009, a reflection of the improving activity levels in the industry throughout the year. In addition, Trinidad's Canadian drilling segment increased its rig count from 52 rigs at the end of 2009 to 55 rigs at the end of 2010. During the year, three rigs were redeployed from

the Company's Mexican operations to Canada, one rig was removed from service at year end and one newly constructed rig was added in the first quarter of the year. Utilization levels increased significantly year over year; Trinidad recorded average utilization of 55.0% during 2010, up 20 percentage points from the previous year and 15 percentage points higher than the industry average of 40% in 2010. Trinidad has a long history of outperforming the industry activity levels. Over the past ten years, Trinidad's utilization has exceeded the industry average every year and during that period has averaged nine percentage points higher than the industry. This gap has expanded over the past few years as the industry demand for modern, deep capacity equipment has increased.

With increased activity levels in 2010, Trinidad's active rig mix changed, causing a slight decrease in dayrates and gross margins. In 2010, a higher proportion of shallower rigs and rigs working on the spot market were put back into operation. These rigs tend to generate lower dayrates than the deeper, largely contracted rigs that generated a large portion of the Company's revenue throughout 2009. In 2010, dayrates averaged \$22,693 per day, compared to \$23,315 per day in 2009, a reduction of 2.7%. Although dayrates were marginally lower year over year, the trend as the year progressed, demonstrated increasing dayrates as activity levels grew and demand for drilling equipment increased. In the first quarter of 2010, dayrates were \$21,868 per day, 13.0% lower than the same period in 2009; however, by the fourth quarter of 2010, dayrates had increased to \$24,086 per day, 6.8% higher than those recorded in the same quarter of 2009.

Operating costs in 2010 increased to \$181.9 million from \$120.3 million in 2009 as a result of increased activity levels in 2010 and additional repairs and maintenance costs incurred as rigs were put back into operation. These additional costs and slightly lower dayrates reduced the gross margin percentage to 36.0% in 2010 from 38.8% in 2009. With the majority of reactivation costs incurred by the end of the third quarter and the trend for improving dayrates towards the end of the year, gross margin percentage increased to 39.9% in the fourth quarter, up from 37.2% recorded in the same quarter of 2009.

Trinidad's well service rig division also benefited from the improving activity levels in 2010. The Company's service rig utilization rate averaged 47.0% in 2010, up from 30.0% in 2009. Hourly rates in the service rig division have begun to increase, particularly towards the end of the year; however, given the large volume of available equipment and competition for this style of work these increases have been slower to materialize than in the drilling division.

In the coring and surface casing services division, Trinidad also experienced improved market conditions over the previous year. Stronger and more stable crude oil prices led to increased activity for the Company's coring equipment, which operates primarily in the oil sands projects. As with the other divisions of the Canadian drilling operations, the improvement was most noticeable in the fourth quarter of 2010. Activity levels showed improvement in 2010; however, revenue and gross margin for this division were negatively impacted when compared to the previous year due to the absence of early-termination revenue of \$5.0 million received in 2009. Activity in the coring industry is generally strongest in the first quarter of each year when winter conditions allow equipment to move more easily on frozen ground. Trinidad is encouraged by the ramp up in activity in the fourth quarter of 2010 and anticipates stronger activity early in 2011.

## United States and International Drilling Operations <sup>(1)</sup>

For the years ended December 31,

(\$ thousands except percentages and operating data)

	2010	2009	% Change
Revenue	357,352	350,454	2.0
Operating expense	209,910	188,945	11.1
Gross margin	147,442	161,509	(8.7)
Gross margin percentage	41.3%	46.1%	
<b>Land Drilling Rigs</b>			
Operating days – drilling	16,581	13,889	19.4
Rate per drilling day (CDN\$)	19,996	23,336	(14.3)
Rate per drilling day (US\$)	19,333	20,189	(4.2)
Utilization rate – drilling	68%	63%	7.9
Number of drilling rigs at year end	62	66	(6.1)
<b>Barge Drilling Rigs</b>			
Operating days – drilling	1,442	1,136	26.9
Rate per drilling day (CDN\$)	24,206	29,971	(19.2)
Rate per drilling day (US\$)	23,413	25,614	(8.6)
Utilization rate – drilling	90%	78%	15.4
Number of barge drilling rigs at year end	2	1	100.0
Number of barge drilling rigs under Bareboat Charter Agreements at year end	3	3	–

(1) Trinidad commenced its drilling operations in Mexico effective November 2008 and expanded its international drilling operations into Chile effective August 2009. Effective April 6, 2010, the rig located in Chile was sold to a third party.

During 2010, the US drilling industry has shown similar trends to those seen in Canada. Throughout the year, the active rig count averaged 1,670 rigs, up 49.4% from 2009. While overall drilling activity has improved, the number of rigs targeting oil has shown the strongest increase with an average of 84.1% more rigs than 2009. Natural gas directed drilling has shown an increase of 46.6% rigs over the same time frame. As in Canada, the growth in crude oil drilling is directly related to the relative strength of crude oil prices over the past year. Activity in unconventional drilling, particularly in shale plays, continued during 2010 and the growing use of horizontal drilling is an ongoing theme in the industry. Trinidad has existing operations and experience in many of the unconventional shale and crude oil plays in the US and is well positioned to continue to perform strongly in these areas.

Revenue in 2010 increased to \$357.4 million compared to \$350.5 million in 2009, an increase of 2.0%. During the year, revenue was impacted by several factors that largely offset each other when reviewed over the full year. Increased activity levels in the US led to average utilization of 68.0% for the US and international drilling operations compared to 63.0% in 2009. Furthermore, operating days grew 19.4% over the same period reflecting the improving activity levels and the operation of four newly constructed rigs delivered throughout the year. During 2010, three rigs were redeployed from the Company's Mexican operations to its Canadian operations and one rig, previously operating in Chile, was sold. In addition, four rigs were removed from service at year end. The net impact of these changes left the rig count for this division with four fewer rigs at the end of 2010 compared to the same time in 2009. Lower dayrates and a weaker US dollar compared to 2009 largely offset the positive impact of the improved activity levels in 2010. Dayrates in 2010 averaged US\$19,333 per day, down 4.2% compared to the dayrates recorded in 2009. The reduction in dayrates largely reflects the changing active rig mix in 2010 compared to the previous year. As activity levels increased, Trinidad was able to put existing equipment back into operation. These rigs tended to be conventional-style rigs working on the spot market, which generally earn lower dayrates than new, high-technology contracted rigs. Canadian dollar denominated dayrates were negatively impacted by the weaker US dollar and averaged \$19,996 per day in 2010 compared to \$23,336 per day in 2009, a reduction of 14.3%.

Operating expenses increased in 2010 to \$209.9 million from \$188.9 million in 2009, reflecting the increased activity levels and the additional repairs and maintenance, training and safety related costs of putting rigs that had been inactive for a period of time back into operation. Gross margin percentage in the year was negatively impacted by the additional costs and lower average dayrates as a result of a change in the rig mix and therefore contracted to 41.3% from 46.1% in 2009. As in the Canadian operations, the trend during the year demonstrated improving dayrates and gross margin percentages as the year has progressed. By the fourth quarter of 2010, dayrates had improved to average US\$19,955 per day in the quarter and gross margin percentage had increased to 43.2%.

During 2010, Trinidad's Mexican operations reduced in size from seven rigs to three rigs. A change in focus by Petróleos Mexicanos (Pemex), Mexico's national oil company, led to reduced activity in the Chicontepec area where Trinidad's rigs had been operating. Following these changes by Pemex, in the second quarter of 2010, four of Trinidad's seven Mexican rigs came off contract. Trinidad has since moved the remaining three rigs to Villahermosa in south eastern Mexico where they are operating under contract with the original customer. The four rigs that were not re-contracted were demobilized out of the country during the third quarter and put into operation in the US and Canada. The costs incurred in moving the rigs were covered by the Mexican customer. The remaining three rigs continue to perform strongly and activity levels stabilized in the second half of the year.

In addition, during 2010, Trinidad sold one rig with its related equipment and the remaining term of the contract, to its operating partner in Chile for US\$28.0 million (CDN\$29.9 million). Although the operations in Chile were contributing strong margins to Trinidad's international operations, the Company felt that the benefit of receiving a lump sum payment for this operation and applying the funds against its outstanding debt levels provided better value for the Company.

During 2010, Trinidad's barge drilling operations also showed signs of improving market conditions. Activity levels have increased with utilization averaging 90.0% in 2010 compared to 78.0% in 2009. Dayrates have stabilized over the year and averaged US\$23,413 per day, 8.6% below the average dayrate in 2009. Canadian dollar denominated dayrates were also impacted by the weaker US dollar and averaged CDN\$24,206 per day, down 19.2% compared to the previous year.

In 2010, Trinidad added an additional barge drilling rig to its fleet, bringing the Company's total number of barge rigs to five. After some enhancements and with the use of internal inventory, it began operating in the third quarter. Market conditions in the barge drilling sector have been impacted by the economic slowdown over the past two years; however, the industry is beginning to show signs of improvement. Trinidad believes that by adding to its barge fleet at an opportune time in the market, the Company can grow its market share and be well positioned as market conditions improve.

### Construction Operations

For the years ended December 31,

(\$ thousands except percentage data)

	2010	2009	% Change
Revenue <sup>(1)</sup>	<b>85,139</b>	115,406	(26.2)
Operating expense <sup>(1)</sup>	<b>82,791</b>	106,356	(22.2)
Gross margin	<b>2,348</b>	9,050	(74.1)
Gross margin percentage	<b>2.8%</b>	7.8%	

(1) Includes inter-segment revenue and operating expenses of \$80.1 million and \$79.8 million for the years ended December 31, 2010 and 2009, respectively.

Trinidad's construction operating segment provides complete drilling solutions including equipment sales, rig design and engineering, manufacturing and after-market support services through Trinidad's subsidiary, Victory Rig Equipment Corporation (Victory). This segment operates as a cost center to Trinidad's other internal divisions. During 2010, the construction operations segment was manufacturing seven built-for-purpose rigs as a part of Trinidad's internal rig build program. At the same time, Victory continues to provide service and recertification requirements for Trinidad and external third parties. At December 31, 2010, five of the seven rigs have been delivered with the remaining two expected to be completed and delivered in early 2011. All rigs built are backed by long-term, take-or-pay contracts.

For the year ended December 31, 2010, the segment reported revenue of \$85.1 million versus \$115.4 million in 2009, a reduction of 26.2%. Lower revenue in 2010 was a result of reduced third-party work which totalled \$5.1 million in the year compared to \$35.6 million in 2009. When compared to the prior year, inter-segment revenues remained stable in 2010 at \$80.1 million, due to the Company's ongoing internal rig build program.

Operating expenses in 2010 reduced by 22.2% from 2009, consistent with the decline in the segment's revenue in 2010, also due to decline in third party work. As the segment's activities focused on work performed on Trinidad's internal rig build program in 2010, Victory's gross margin declined to \$2.3 million or 2.8% as a result of internal work billed at cost to Trinidad's other operating segments. In 2009, gross margin of \$9.1 million or 7.8% was largely related to third-party work performed in the first and fourth quarter. Inter-segment revenue is expected to continue as Victory constructs additional rigs for Trinidad's drilling divisions.

In December 2010, the Company made the decision to narrow the focus of its Construction operations to internal rig building for all future construction. Therefore, when Trinidad was performing its annual impairment review of its carrying value of goodwill, the Company concluded, on a divisional basis, it was greater than its fair value. Fair value is determined, through the use of industry standard valuation methods, such as discounted cash flows. The erosion of the segment's value was also a result of poor third-party sales during 2010 that were expected to continue in future years. As a result, Trinidad recorded an impairment charge on the entire goodwill value within the Construction operations of \$58.5 million. In addition, the Company recorded an intangible impairment of \$0.9 million in 2010 as it was concluded the carrying value of customer relations, trade name and one of their patents exceeded their fair value. (See the Impairment of Intangible assets and Impairment of Goodwill section of this MD&A for further details.)

## GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31,

(\$ thousands except percentage data)

	2010	2009	% Change
General and administrative expenses	53,949	53,117	1.6
% of revenue	8.3%	9.1%	

General and administrative (G&A) expenses have remained stable from 2009 into 2010 with only a slight increase of \$0.8 million or 1.6%. As a percentage of revenues, G&A has decreased from 9.1% to 8.3% over the same time frame. G&A expenses as a percentage of revenue decreased as a result of a larger revenue base over which to spread the predominantly fixed costs. Trinidad continues to maintain G&A expenses at a relatively consistent level and will continue prudent administration of G&A expenses spending moving forward.

## INTEREST

For the years ended December 31,

(\$ thousands)

	2010	2009	% Change
Interest on long-term debt	20,399	17,956	13.6
Accretion of senior notes	25	-	-
Effective interest on deferred financing costs	9,112	3,207	184.1
	29,536	21,163	39.6
Interest on convertible debentures	28,726	27,447	4.7
Effective interest on deferred financing costs	6,994	2,663	162.6
Accretion of convertible debenture	15,909	5,296	200.4
	51,629	35,406	45.8

Total interest on long-term debt totalled \$29.5 million in 2010, an increase of 39.6% or \$8.4 million from 2009. The termination of the Company's former credit facility in 2010 led to a write-off of \$4.9 million in unamortized costs. In conjunction with this write-off, the termination of a cash flow hedge related to interest rate swaps on the former debt resulted in an additional \$0.3 million in interest costs in 2010. Absent these termination costs, interest expense increased approximately \$3.2 million year over year. The remaining increase is consistent with both the overall increase in debt levels and the increase in the deferred financing costs as a result of the renegotiations of the Company's debt facility in April 2010 and December 2010.

Total interest on the convertible debentures totalled \$51.6 million in 2010, an increase of \$16.2 million from \$35.4 million in 2009. As a result of the extinguishment of the convertible debentures during the fourth quarter of 2010, Trinidad incurred additional interest costs of \$15.9 million in 2010. These additional interest costs included \$10.1 million in additional accretion expenses required to true-up the liability such that its carrying value at termination is consistent with the value paid to the debenture holders; \$4.3 million in unamortized deferred financing costs; and an additional \$1.5 million in interest costs related to the debenture's nineteen days notice period in 2011. Excluding these costs, the interest on the convertible debentures was consistent with the prior year.

## STOCK-BASED COMPENSATION

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

	2010	2009	% Change
Stock-based compensation	3,971	4,366	(9.0)

Stock-based compensation expense decreased slightly in 2010 to \$4.0 million compared to \$4.4 million in 2009. Stock-based compensation includes expenses from the Company's three incentive programs, Incentive Option Plan, Performance Share Unit Plan (PSU Plan) and the Deferred Share Unit Plan (DSU Plan). Costs related to the PSU Plan and DSU Plan are subject to fair value methods using the Company's closing share price at the end of each reporting period. The lower expense in 2010 is as a result of a lower closing price on December 31, 2010 over December 31, 2009. In addition, the expense relating to the Incentive Option Plan also declined in 2010 due to the majority of the options vesting by December 31, 2010.

## FOREIGN EXCHANGE LOSS

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

	2010	2009	% Change
Foreign exchange loss	7,068	24,638	(71.3)

Trinidad's US and international operations continue to be a significant contributor to the overall operations of the Company. As a result, upon consolidation, Trinidad's US and international operations are considered to be self-sustaining and therefore, gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income (OCI) on the balance sheet as a component of equity. For the year ended December 31, 2009 and the nine months ending September 30, 2010, Trinidad recorded all gains and losses in the Canadian entities, on all their US denominated intercompany balances, in the statement of operations. During the fourth quarter of 2010, a portion of the US dollar-denominated intercompany balances and a portion of long-term debt were designated as a hedge of the net investment in the self-sustaining foreign subsidiaries. As a result, unrealized foreign exchange gains and losses of these accounts will be offset against foreign exchange gains and losses arising from the translation of self-sustaining foreign subsidiaries' accounts within OCI and will not be reflected in the statement of operations.

For 2010, Trinidad recognized a loss of \$7.1 million versus a loss of \$24.7 million in 2009. The lower level of losses partially relates to the strengthening of the Canadian dollar over the past year. Although the beginning of 2010 showed a decline in the Canadian dollar against the US dollar, it began strengthening thereafter and resulted in a rate increase of 5.3% at December 31, 2010 compared to December 31, 2009. The decline was also impacted by the accounting change in the fourth quarter of foreign exchange gains and losses now reflected in OCI. Of the \$7.1 million foreign exchange loss, \$6.6 million was related to unrealized losses and \$0.5 million was related to realized losses.

## DEPRECIATION AND AMORTIZATION

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

	2010	2009	% Change
Depreciation	101,224	86,448	17.1
Amortization of intangible assets	564	584	(3.4)
	101,788	87,032	17.0
(Gain) loss disposal or sale of assets	(3,315)	10,544	(131.4)

Depreciation increased in 2010 by 17.1% to \$101.2 million compared to \$86.4 million in 2009. Increased drilling rig utilization and higher operating days in 2010 caused depreciation expense to be higher in both the Canadian and US drilling divisions offset by a decrease in depreciation expense in the international operations. Canadian drilling operations showed a \$6.1 million increase in depreciation expense from 2009. For the US drilling operations, depreciation expense increased by \$9.1 million, while the international operations had a decline in depreciation expense of \$0.6 million. The Construction operations had a slight increase of \$0.2 million.

The Canadian drilling division per-day depreciation rate declined by 20.2% in 2010 as the additional operating days included smaller rigs with lower capitalized asset costs. For the US and international operations, the US dollar per-day depreciation rate for both 2010 and 2009 remained relatively unchanged with a slight increase of 0.5%. The stability in the US dollar per-day rate in the US and international operations is a result of similar increases in both the operating days and depreciation expense from 2009. Operating days for the US and international operations increased 24.9% in 2010, while depreciation expense in US dollars increased by approximately 26.0% due to the higher capitalized asset costs in the operating rigs being depreciated. On a Canadian dollar per-day rate basis, 2010 reflected a decline as a result of the strengthening of the Canadian dollar in 2010 from 2009. As a percentage of revenues, depreciation represented 15.7% in 2010, an increase of 0.9 percentage points from 2009 at 14.8%. The increase relates to a higher proportion of drilling rigs with greater depth capacities and higher capital asset costs operating during the year, leading to increased depreciation expense as a percentage of revenue.

With the 2008 acquisition of Victory Rig Equipment Corporation, Trinidad acquired intangible assets of \$4.3 million, which were comprised of patent technology, customer relationships, the Victory trade name and non-compete agreements. For both 2010 and 2009, amortization expense on intangible assets was \$0.6 million.

The Company recorded a gain on sale or disposal of assets of \$3.3 million in comparison to a \$10.5 million loss on disposal of assets in 2009. In 2010, Trinidad recorded a gain of \$3.8 million relating to the sale and disposal of a drilling rig and rig-related equipment located in Chile, along with all its shares in TDL Chile S.A., a wholly owned subsidiary, for cash consideration for US\$28.0 million (CDN\$29.9 million). This gain was offset by losses of \$0.5 million of rig-related and automotive equipment. For 2009, the loss was related to the replacement of 33 diesel engines on 11 US based rigs.

### IMPAIRMENT OF CAPITAL ASSETS

For the years ended December 31,

(\$ thousands)

	2010	2009	% Change
Impairment of intangible asset	23,853	–	–

Management performs a review of the capital asset's carrying values to ensure there is no impairment whenever events or conditions occur that indicate that carrying value may not be recoverable. If the carrying value exceeds undiscounted future cash flows, the carrying value is impaired. In the fourth quarter of 2010, it was noted that four rigs, within the US Drilling operations were no longer marketable, therefore their carrying value exceeded future cash flows. An impairment charge of \$23.9 million was recognized to reflect these rigs to their fair value at December 31, 2010 based on an estimated recoverable amount.

### IMPAIRMENT OF INTANGIBLE ASSETS

For the years ended December 31,

(\$ thousands)

	2010	2009	% Change
Impairment of intangible asset	912	23,189	(96.1)

During 2010, in conjunction with Trinidad's annual goodwill impairment testing, management also reviewed the estimated fair value of the remaining intangible assets related to the acquisition of Victory Rig Equipment Corporation. Trinidad's management concluded that the carrying value of the intangible assets of customer relations, trade name and one particular patent exceeded their fair value; therefore, there were impairment charges of \$0.9 million recorded in 2010. Non-compete agreements and the remaining patents continue to be amortized over their deemed useful lives as management concluded that the fair value of these items exceeded the carrying value.

During the first quarter of 2009, the Company recorded an intangible impairment charge of \$23.2 million related to the Bareboat Charters in the Company's US and international segment. The intangible asset was recognized in connection with the acquisition of Axxis Drilling Inc (Axxis). The original value of \$39.6 million was related to the US\$12.5 million annual payments to the former owners of Axxis in relation to the Bareboat Charters. The intangible asset was originally amortized over the period of the payment term, ending July 2010. Management concluded the remaining value of \$23.2 million was fully impaired based on the outlook for the barge drilling market and its adverse effect on the Bareboat Charters up until July 2010. The entire amount was recognized as an impairment of intangible assets in the statement of operations for the year ended December 31, 2009.

### IMPAIRMENT OF GOODWILL

For the years ended December 31,

(\$ thousands)	2010	2009	% Change
Impairment of goodwill	58,522	–	–

On an annual basis, Trinidad reviews its goodwill balances to ensure there is no impairment. Impairment occurs if the carrying value of the goodwill, on a divisional basis, is greater than its fair value. Fair value is determined, through the use of industry standard valuation methods, such as discounted cash flows. In the case of the Construction operations, the Company concluded to narrow the focus of its operations to internal rig building for all future construction, thus impacting the carrying value of goodwill to exceed its fair value. The erosion of the segment's value was also a result of poor third party sales during 2010 that was expected to continue in future years. As a result, Trinidad recorded an impairment charge on the entire goodwill value within the Construction operations of \$58.5 million.

### INCOME TAXES

For the years ended December 31,

(\$ thousands)	2010	2009	% Change
Current tax expense	2,892	1,871	54.6
Future tax expense	3,423	7,741	(55.8)

Current tax expense for 2010 increased by 54.6% to \$2.9 million, largely due to an increase in current taxes payable to \$1.5 million in the international companies of the US & international segment. Partially offsetting this change is a decrease in current tax payable of \$0.5 million in relation to the Construction segment.

Future income tax expense decreased by \$4.3 million, or 55.8%, to \$3.4 million in 2010. The lower future tax expenses were partially attributable to a non-deductible impairment charge of capital assets of \$23.9 million offset partially by permanent differences. This decreased amount was also affected by the increase in taxable temporary differences relating to capital assets; differences between tax depreciation and GAAP depreciation created larger temporary differences in Trinidad's capital asset base resulting in a greater future tax liability on these assets at December 31, 2010. New US legislation also introduced accelerated tax deductions on assets leading to a conversion of the Company's scheduled future tax assets to a net operating loss carryforward by \$35.8 million. Decreasing Canadian tax rates are offset by increasing rig utilization in the US and international segment where higher rates remain unchanged. Trinidad's total effective tax rate has correspondingly increased above the expected Canadian tax rate.

## NET EARNINGS (LOSS) AND CASH FLOW

For the years ended December 31,

(\$ thousands except per share data)

	2010	2009	% Change
Net loss	<b>(82,133)</b>	(22,439)	(266.0)
Adjusted net earnings <sup>(1)</sup>	<b>12,193</b>	29,754	(59.0)
Per share (diluted)	<b>0.10</b>	0.28	(64.3)
Adjusted net earnings before refinancing costs <sup>(1)</sup>	<b>31,795</b>	29,754	6.9
Per share	<b>0.26</b>	0.28	(7.1)
Cash flow from operations	<b>119,420</b>	107,080	11.5
Per share (diluted)	<b>0.99</b>	0.99	–
Cash flow from operations before change in non-cash working capital <sup>(1)</sup>	<b>146,581</b>	144,526	1.4
Per share (diluted)	<b>1.21</b>	1.34	(9.7)

(1) Please see Non-GAAP Measures definition section of this MD&A for further details.

## CHANGE IN NET LOSS

For the years ended December 31,

(\$ thousands except per share data)

	2010	2009	Change (loss)/recovery
Revenues	<b>646,658</b>	582,591	64,067
Operating	<b>394,563</b>	335,849	58,714
Gross margin	<b>252,095</b>	246,742	5,353
Losses:			
Foreign exchange loss	<b>7,068</b>	24,638	(17,570)
(Gain)loss on disposal or sale of assets	<b>(3,315)</b>	10,544	(13,859)
Interest on long-term debt	<b>29,536</b>	21,163	8,373
Interest on convertible debentures	<b>51,629</b>	35,406	16,223
Other <sup>(1)</sup>	<b>60,812</b>	59,468	1,344
Recoveries:			
Depreciation and amortization	<b>101,788</b>	87,032	14,756
Impairment of capital assets, intangible assets and goodwill	<b>83,287</b>	23,189	60,098
Future tax expense	<b>3,423</b>	7,741	(4,318)
Net loss	<b>(82,133)</b>	(22,439)	(59,694)

(1) "Other" includes all other expenses from the statement of operations for the years of 2010 and 2009.

Trinidad's net loss for the year was \$82.1 million in 2010, a decline of \$59.7 million from \$22.4 million in 2009. The larger loss in 2010 is due to impairments on capital assets, intangibles and goodwill of \$83.3 million in 2010 versus an impairment of \$23.2 million on intangible assets in 2009. Before impairments, Trinidad achieved net earnings of \$1.2 million in 2010 and \$0.8 million in 2009. Also included in Trinidad's net earnings are deferred financing costs of \$19.6 million related to the redemption of the Company's convertible debentures and former credit facility. Adjusted net earnings before refinancing costs was \$31.8 million in 2010 compared to \$29.8 million in 2009. Consolidated revenues in 2010 increased by 11.0% or \$64.1 million as a result of increased operating days and utilization levels. In 2010, operating costs were higher by \$58.7 million or 17.5%, resulting in a lower margin of 39.0 % versus 42.4% in 2009. Gross margin declined in 2010 due to a change in rig mix and an increase in repairs or maintenance expenses incurred as rigs were put back into operation in 2010. Declines in foreign exchange losses of \$18.0 million, future tax expenses of \$4.3 million, and gains/losses on disposal or sale of assets of \$13.9 million offset the increase in interest of long-term debt of \$8.4 million, increase in interest on convertible debentures of \$16.2 million, other expenses of \$1.3 million and depreciation expense of \$14.8 million. Included in the interest expenses are deferred financing costs of \$5.2 million related to the former credit facility and \$14.4 million related to the redemption of the convertible debentures. Further details on all above mentioned changes are outlined in previous sections of this MD&A.

Cash flow from operations increased by 11.5% from \$107.1 million cash inflow (\$0.99 per share (diluted)) in 2009 to a cash inflow of \$119.4 million (\$1.00 per share (diluted)) in 2010. Non-cash working capital changes increased from \$37.4 million in 2009 to \$27.2 million in 2010. Cash flow from operations before changes in non-cash working capital was \$146.7 million in 2010 versus \$144.6 million in 2009. Cash flow before changes in non-cash working capital per share (diluted) declined from \$1.34 in 2009 to \$1.21 in 2010 as a result of an increase in weighted shares in 2010 of 120,840,962 versus 107,915,093 in 2009. The primary difference is the issue of 27,184,500 shares on June 25, 2009 from a bought deal equity financing for gross proceeds of \$140.0 million.

## FOURTH QUARTER AND QUARTER BY QUARTER ANALYSIS

	2010				2009				2008
(\$ millions except per share data and operating data)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Financial Highlights</b>									
Revenue	185.9	161.9	128.8	170.1	148.2	126.1	116.7 <sup>(1)</sup>	191.6	205.3
Gross margin	76.5	60.4	47.1	68.1	59.7	53.0	52.5	81.5	84.2
Gross margin percentage	41.2	37.3	36.6	40.0	40.3	42.0	50.0	42.5	41.0
Net earnings	(87.6) <sup>(2)</sup>	0.3	6.0	(0.8)	3.9	(12.1)	(8.6)	(5.6) <sup>(2)</sup>	21.8 <sup>(3)</sup>
Effective interest on financing costs	11.2	1.7	1.6	1.6	1.6	1.6	1.6	1.1	1.1
Accretion on convertible debentures	11.6	1.5	1.4	1.4	1.5	1.3	1.3	1.2	1.2
Stock-based compensation	1.8	0.7	(0.3)	1.8	(0.1)	2.1	1.7	0.7	0.9
Unrealized foreign exchange loss (gain)	1.9	4.9	(5.7)	6.4	6.5	11.4	9.9	(5.0)	(22.0)
Depreciation and amortization	26.5	26.9	23.0	25.4	23.3	20.6	19.1	24.0	25.8
Loss (gain) on sale of assets	0.4	–	(3.7)	–	0.6	0.3	5.6	4.1	(29.0)
Impairment of capital assets	23.9	–	–	–	–	–	–	–	–
Impairment of intangible assets	0.6	0.3	–	–	–	–	–	23.2	–
Impairment of goodwill	58.5	–	–	–	–	–	–	–	38.2
Future income tax expense (recovery)	3.7	(2.1)	(3.0)	4.8	1.1	1.7	(2.9)	7.8	19.8
Cash flow from operations before change in non-cash working capital	52.5	34.2	19.3	40.6	38.4	26.9	27.7	51.5	57.8
Net earnings (loss) per share (diluted)	(0.73)	–	0.05	(0.01)	0.03	(0.10)	(0.09)	(0.06)	0.23
Cash flow from operations before change in non-cash working capital per share (diluted)	0.43	0.28	0.16	0.34	0.32	0.22	0.29	0.55	0.60

(1) Previously reported revenue and operating costs were both reduced by \$8.8 million to more properly reflect the characterization of certain activities as inter-segment. There were no changes to previously reported gross margin, net earnings (loss) and other related amounts.

(2) Includes impairment of capital assets charge of \$23.9 million, impairment of intangible assets charge of \$0.9 million and impairment of goodwill charge of \$58.5 million.

(3) Includes impairment of intangible asset charge of \$23.2 million.

(4) Includes impairment of goodwill charge of \$38.2 million.

## FOURTH QUARTER AND QUARTER BY QUARTER ANALYSIS

	2010				2009				2008
(\$ millions except per share data and operating data)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Financial Highlights</b>									
EBITDA <sup>(1)</sup>	61.2	42.1	40.1	43.9	38.9	27.3	29.0	69.3	38.9
Per share (diluted) <sup>(2)</sup>	0.51	0.35	0.33	0.36	0.32	0.23	0.31	0.73	0.40
Adjusted EBITDA <sup>(1)</sup>	63.4	47.9	33.9	52.9	47.4	40.8	40.2	65.1	47.4
Per share (diluted) <sup>(2)</sup>	0.52	0.40	0.28	0.44	0.39	0.34	0.42	0.69	0.49
Adjusted net earnings <sup>(1)</sup>	(2.5)	6.4	(0.2)	8.4	12.5	1.4	2.6	13.3	12.5
Per share (diluted) <sup>(2)</sup>	(0.02)	0.05	–	0.07	0.10	0.01	0.03	0.14	0.13
Adjusted net earnings before refinancing costs <sup>(1)</sup>	17.1	6.4	(0.2)	8.4	12.5	1.4	2.6	13.3	12.5
Per share (diluted) <sup>(2)</sup>	0.14	0.05	–	0.07	0.10	0.01	0.03	0.14	0.13

(1) Readers are cautioned that gross margin, gross margin percentage, EBITDA, Adjusted EBITDA, Adjusted net earnings, Adjusted net earnings before refinancing costs, and the related per share information do not have standardized meanings prescribed by GAAP – see “Non-GAAP Measures”.

(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 deemed conversion of convertible debentures and the number of shares issuable pursuant to the Incentive Option Plan.

## QUARTERLY ANALYSIS

	2010				2009				2008
(\$ millions except per share and operating data)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Operating Highlights</b>									
<b>Land Drilling Market</b>									
Operating days – drilling									
Canada	3,270	2,786	1,616	3,170	2,090	1,739	692	2,545	3,034
United States and International <sup>(1)</sup>	4,430	4,424	3,958	3,769	3,994	3,419	3,233	3,243	3,757
Rate per drilling day									
Canada (CDN\$)	24,086	21,477	23,590	21,868	22,543	21,486	23,564	25,132	26,358
United States and International (CDN\$) <sup>(1)</sup>	20,384	19,910	18,504	21,206	21,887	21,819	23,747	27,124	26,418
United States and International (US\$) <sup>(1)</sup>	19,955	19,117	18,092	20,157	20,355	19,632	19,554	21,961	22,882
Utilization rate – drilling									
Canada	65%	56%	34%	67%	44%	36%	14%	51%	61%
United States and International <sup>(1)</sup>	73%	72%	66%	63%	63%	61%	61%	64%	80%
CAODC industry average	49%	39%	20%	52%	32%	21%	11%	36%	43%
Number of drilling rigs at quarter end									
Canada	55	55	53	53	52	53	53	57	57
United States and International <sup>(1)</sup>	62	66	67	66	66	66	64	58	56
Utilization for service rigs	57%	41%	37%	54%	32%	27%	19%	41%	45%
Number of service rigs at quarter end	22	22	22	22	22	23	23	23	23
Number of coring and surface casing rigs at quarter end	20	20	20	20	20	20	20	20	20
<b>Barge Drilling Market</b>									
Operating days	456	368	283	334	274	266	351	245	347
Rate per drilling day (CDN\$)	24,402	24,738	25,013 <sup>(2)</sup>	23,732	20,275	28,805	30,250	41,183	47,583
Rate per drilling day (US\$)	23,878	23,757	24,406 <sup>(2)</sup>	22,559	19,482	25,736	24,906	33,353	41,401
Utilization rate	99%	88%	78%	93%	75%	72%	96%	68%	94%
Number of drilling rigs at quarter end	2	2	1	1	1	1	1	1	1
Number of drilling rigs under Bareboat Charter Agreements at quarter end	3	3	3	3	3	3	3	3	3

(1) Trinidad commenced its operations in Mexico effective November 2008 and expanded its international operations into Chile effective August 2009. Effective April 6, 2010, the rig located in Chile was sold to a third party.

(2) Other revenue associated with equipment repairs was removed from the dayrate calculation in the second quarter to comply with corporate dayrate calculation practices.

The following tables outline revenue, operating expenses, gross margin and gross margin as a percentage of revenue for each of Trinidad's reporting segments for the three month period ending December 31, 2010, with comparable information for the same time period of 2009:

### Canadian Drilling Operations

For the three months ended December 31,  
(\$ thousands except percentage data)

	2010	2009	% Change
Revenue	89,011	53,532	66.3
Operating expense	53,514	33,597	59.3
Gross margin	35,497	19,935	78.1
Gross margin percentage	39.9%	37.2%	

### United States and International Drilling Operations

For the three months ended December 31,  
(\$ thousands except percentage data)

	2010	2009	% Change
Revenue	96,681	84,737	14.1
Operating expense	54,950	47,058	16.8
Gross margin	41,731	37,679	10.8
Gross margin percentage	43.2%	44.5%	

### Construction Operations

For the three months ended December 31,  
(\$ thousands except percentage data)

	2010	2009	% Change
Revenue <sup>(1)</sup>	12,139	15,544	(21.9)
Operating expense <sup>(1)</sup>	12,960	13,364	(3.0)
Gross margin	(821)	2,180	(137.7)
Gross margin percentage	-6.8%	14.0%	

(1) Includes inter-segment revenue and operating expenses of \$11.9 million and \$5.6 million for the three months ended December 31, 2010 and 2009, respectively.

### Fourth Quarter Analysis

An overview of the quarter-by-quarter analysis above shows results have been improving consistently as the year has progressed. Revenue in the Canadian drilling operations segment was significantly higher in the fourth quarter of 2010 at \$89.0 million, representing an increase of 66.3% from the fourth quarter of 2009. The strong growth in revenue in the quarter was driven by increased drilling days and higher dayrates compared to the previous year. During the fourth quarter, the Company achieved drilling days of 3,270 days compared to 2,090 days in the same period of 2009, an increase of 56.5%. This equates to a utilization rate of 65.0% in the fourth quarter of 2010 compared to a utilization rate of 44.0% in the same quarter of 2009. Furthermore, the Canadian drilling rig count increased to 55 drilling rigs at the end of 2010 versus 52 rigs at the end of 2009. During the year, three rigs were redeployed from the Company's Mexican operations to Canada, one rig was removed from service at year end and one newly constructed rig was added in the first quarter of the year. The average rate per drilling day was \$24,086 in the fourth quarter of 2010 in comparison to the average rate per drilling day of \$22,543 in fourth quarter 2009. Year over year, gross margin percentage was 39.9% in the final quarter of 2010 versus 37.2% in the final quarter of 2009. The higher gross margin percentage quarter over quarter is representative of the improving dayrates which continue to strengthen as customer demand remains robust.

For the fourth quarter of 2010, revenue in the US and international drilling segment totalled \$96.7 million, while in the fourth quarter of 2009 revenue was \$84.7 million, an increase of 14.1%. Revenue increased in the fourth quarter as a direct result of increased activity levels. Utilization in the fourth quarter of 2010 was 73.0% compared to 63.0% in the same quarter in 2009. Dayrates in the US and international drilling segment have shown an increasing trend, particularly compared to the corresponding quarter in the previous year. In the fourth quarter of 2010 dayrates were US\$19,955 versus US\$20,355 in 2009 with a rig count of 62 rigs in the quarter compared to 66 rigs in the same quarter of 2009. During 2010, the Company added four newly constructed rigs to its US

operations, redeployed three rigs from its Mexican operations to its Canadian operations and sold one rig which had previously been operating in Chile. In addition, four rigs were removed from service at year end. A weaker US dollar in the fourth quarter of 2010 reduced the impact of improving dayrates following their conversion to Canadian dollars. Gross margin percentage decreased slightly year over year in the fourth quarter to 43.2% compared to 44.5% in 2009. The lower gross margin percentage was reflective of the changing rig mix which, following the ramp up in activity, included more conventional style equipment than was working at the same time in 2009. Gross margin percentage in the fourth quarter showed signs of the improved market conditions over the third quarter of 2010, when gross margin percentage was 39.6%. The stronger gross margin percentage in the fourth quarter reflected improving dayrates and reduced reactivation costs from the prior quarter.

For the barge rig drilling division, in the US and international drilling operations segment, utilization, operating days and dayrates all showed signs of improvement in the fourth quarter of 2010 compared to the same quarter of 2009. Utilization increased to 99.0% in the fourth quarter compared to 75.0% in the same quarter of the previous year while operating days increased to 456 days from 274 days. In addition to improved activity levels, Trinidad added a barge drilling rig to its fleet which began operating in the third quarter of 2010. Dayrates in the fourth quarter of 2010 averaged US\$23,878 per day compared to US\$19,482 per day in 2009, reflecting a stabilization of dayrates in this division and growing customer demand. The weaker US dollar also negatively impacted revenue in the barge drilling division in the quarter when compared to the same quarter in 2009.

The Construction segment generated lower revenues in the final quarter of 2010 of \$12.1 million, in comparison to \$15.5 million generated in the same quarter of 2009. Revenue was lower as a result of reduced third-party work in the fourth quarter; however, this was partially offset by higher inter-segment revenues in 2010. Third-party work was \$0.2 million in the fourth quarter of 2010 versus \$9.9 million in the fourth quarter of 2009. Inter-segment revenue increased from \$5.6 million in 2009 to \$11.9 million in 2010 due to work performed in the fourth quarter of 2010 on the internal rig construction program. Victory delivered one additional rig prior to the end of the year and worked towards the completion of the remaining two rigs in the 2010 program during the fourth quarter of 2010. In 2009, inter-segment activity levels were lower in the fourth quarter due to a delay in the internal rig construction program until early 2010. Victory continues to work on the remaining two rigs of the program with expected delivery in early 2011. The negative gross margin in the fourth quarter of 2010 was due to the majority of work performed being intercompany which is recorded at cost between the segments. In the fourth quarter of 2009, the construction segment performed a project of approximately \$9.0 million in revenues for a third-party customer delivering higher than historical margins to bring the segment's margin to 14.0% in that quarter.

In December 2010, the Company made the decision to narrow the focus of its Construction operations to internal rig building for all future construction. As a result, Trinidad recorded an impairment charge on the entire goodwill value within the Construction operations of \$58.5 million. In addition, the Company recorded an intangible impairment of \$0.9 million in 2010 as it was concluded the carrying value of customer relations, trade name and one of their patents exceeded their fair value. (See the Impairment of Intangible assets and Impairment of Goodwill section of this MD&A for further details.)

### **Quarter by Quarter Analysis**

A comparison of Trinidad's quarterly results, at any given time, requires consideration of movement in crude oil and natural gas pricing and seasonality over the past two years. 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. Generally speaking, North American markets have greater exposure to natural gas prices while international markets are more heavily weighted to crude oil projects. From a seasonality perspective, Trinidad operates a substantial number of rigs in western Canada and therefore operations are impacted by weather and seasonal factors. The winter season, which occurs during the first quarter, is generally a busy period in western Canada as oil and gas companies take advantage of frozen conditions to move drilling rigs into regions which might otherwise be inaccessible to heavy equipment due to swampy conditions. The second quarter 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 third and fourth quarters in western Canada are usually representative of average activity levels.

Trinidad's continued expansion into the US and international markets have reduced the Company's overall exposure to the seasonal factors that are present in its Canadian operations. Operators in the US and Mexico have more flexibility to work throughout the year. This increased number of available operating days has allowed Trinidad to better manage its business with more sustainable cash flow throughout the annual cycle. This was evident throughout the past few years as Trinidad has expanded its operations, growing its US fleet and expanding into Mexico.

During 2009, Trinidad's financial and operating results were impacted by the global economic recession. In 2009, Trinidad faced declining market conditions company-wide as a result of lower commodity prices and a decline in customer activity. These downward financial and operational trends in 2009 were directly tied to the global recession, tight capital markets, and sustained lows for energy commodity prices, particularly natural gas. In response to these conditions, Trinidad significantly reduced its capital expenditure plans, lowered its dividend and undertook a number of cost reduction measures in 2009. The Canadian dollar strengthened in the latter half of 2009 causing foreign exchange losses upon translation of US denominated accounts. In addition to the foreign exchange loss, an intangible impairment charge, loss on sale of assets and increased general and administration and stock-based compensation expenses brought Trinidad's overall reporting to a net loss during the year.

Activity began to improve in the first half of 2010 and strengthened significantly in the second half of the year. As the year progressed and activity grew, dayrates began to increase as a result of ongoing customer demand. Revenue levels grew during the year due to improving dayrates and higher activity; however, gross margin percentage reduced in the second and third quarters of the year as the active rig mix changed and additional costs were incurred as rigs were put back into operation. By the fourth quarter, the majority of these reactivation costs were complete and gross margin percentage increased. Net earnings, although impacted by fluctuating foreign exchange gains and losses and increasing depreciation and amortization costs, increased year over year for the first three quarters of the year. Net earnings in the fourth quarter lowered as a result of impairment charges recorded on goodwill and capital assets and additional financing costs recorded in association with the debt refinancing that was completed in the quarter.

### **Seasonality**

Trinidad operates a substantial number of rigs in western Canada, and therefore operations are heavily dependent upon the seasons. The winter season, which incorporates the first quarter, is a busy period as oil and natural gas companies take advantage of frozen conditions to move drilling rigs into regions which might otherwise be inaccessible to heavy equipment due to swampy conditions. The second quarter 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 third and fourth quarters are 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. This increased number of operating days throughout the year has allowed Trinidad to better manage its business with more sustainable cash flow throughout the annual cycle.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31,

(\$ thousands except percentage data)

	2010	2009	2008
Working capital <sup>(1)</sup>	126,811	90,673	85,789
Current portion of long-term debt	546	14,146	16,844
Long-term debt <sup>(2)</sup>	606,154	216,273	321,768
Convertible debentures <sup>(3)</sup>	–	331,249	323,381
Total debt	606,700	561,668	661,993
Total debt as a percentage of assets	39.4%	34.6%	35.6%
Net debt <sup>(1)</sup>	479,343	456,849	559,360
Net debt as a percentage of assets	31.2%	28.1%	30.0%
Total assets	1,538,593	1,624,013	1,862,064
Total long-term liabilities	689,142	631,074	742,692
Total long-term liabilities as a percentage of assets	44.8%	38.9%	39.9%
Shareholders' equity	778,476	913,958	919,471
Total debt to shareholders' equity	77.9%	61.5%	72.0%
Net debt to shareholders' equity	61.6%	50.0%	60.8%

(1) Please see Non-GAAP Measures definition section of this MD&A for further details.

(2) Long-term debt and Senior Notes are reflected net of associated transaction costs.

(3) Convertible debentures are reflected net of the related equity component and associated transaction costs.

On December 16, 2010, Trinidad issued US\$450.0 million in 7.875% senior unsecured notes (Senior Notes) for gross proceeds of US\$446.7 million, due January 2019. The Canadian dollar equivalency on this date was \$449.1 million. Interest is payable semi-annually in arrears on January 15 and July 15. The costs incurred in issuing these notes were \$11.7 million and were recorded as a deferred financing charge offset against the long-term debt and amortized over the life of the Senior Notes. A portion of the proceeds from the Senior Notes totaling \$355.6 million was used to redeem the Company's convertible debentures that were due to mature in 2012. See discussions on this redemption further in this section.

Also on December 16, 2010, Trinidad terminated its existing credit facility that was due to mature in 2012, consisting of a Canadian dollar revolving facility of \$150.0 million, a US based revolving facility of US\$100.0 million, a Canadian dollar term facility of \$100.0 million and a US based term facility of US\$125.0 million, and entered into a new senior secured revolving facility which includes \$200.0 million in Canadian dollars and \$100.0 million in US dollars. The new Canadian and US revolving facility requires quarterly interest payments that are based on LIBOR and Bankers Acceptance (BA) rates and incorporate a tiered interest rate, which varies depending on the results of the Consolidated Total Debt to Consolidated EBITDA ratio. This facility matures December 16, 2014, and is subject to annual extensions of an additional year on each anniversary. The members of the syndicated groups include major Canadian, United States and international financial institutions. This debt is secured by a general guarantee over the assets of Trinidad and its subsidiaries. As a result of the extinguishment of the former credit facility, Trinidad recognized an expense of approximately \$4.9 million of previous deferred financing charges. Trinidad capitalized \$2.5 million in deferred financing charges related to the new credit facility.

Prior to December 16, 2010, Trinidad amended its credit facility on April 6, 2010. The cost to Trinidad of this amendment was \$6.6 million, which was included in deferred financing costs and was amortized over the life of the amended agreement until December 16, 2010. The remaining unamortized cost was included in the \$4.9 million of deferred financing charges recognized.

A total of \$139.6 million of capital expenditures were incurred during the twelve months ended December 31, 2010 compared to \$162.6 million in 2009. Capital expenditures in 2010 were substantially related to the six rigs included in the Company's 2010 rig build program, an additional rig built for the Canadian drilling operations segment in the first quarter and capital upgrades to a number of rigs to improve their marketability, including three rigs since redeployed to the Bakken play in North Dakota. In addition, capital expenditures were incurred on the enhancement of the Company's additional barge drilling rig.

Working capital increased by \$36.1 million to \$126.8 million as at December 31, 2010 compared to \$90.7 million at December 31, 2009. The increase was largely due to an increase of \$26.7 million in current assets related to an increase in accounts receivable of \$20.4 million and an increase of \$3.7 million in cash and cash equivalents in addition to a reduction of current liabilities of \$8.0 million. The decline in current liabilities was mostly related to the changes in long-term debt on December 16, 2010 as mentioned above, in addition to the final payment made in the third quarter of 2010 to the former owners of the US subsidiary of Axxis, in relation to the Bareboat charter agreement.

On July 5, 2007, Trinidad issued \$354.3 million in unsecured subordinated convertible debentures, which were convertible into shares of Trinidad at the option of the holder at any time prior to maturity at a conversion price of \$19.30 per share. They had a face value of \$1,000, a coupon rate of 7.75%, and a maturity date of July 31, 2012, with interest being paid semi-annually on June 30 and December 31. Trinidad had the option to redeem the debentures in whole or in part at a redemption price of \$1,000 after December 31, 2010 and before their maturity date. On December 16, 2010, the Company gave notice for early redemption of its outstanding convertible unsecured subordinated debentures for the total outstanding value of \$354.1 million. The notice of redemption was required to be given 30 days prior to redemption; therefore, the redemption date occurred on January 19, 2011. A redemption price of \$1,004.03 per debenture was awarded consisting of \$1,000 principal and accrued and unpaid interest. A portion of the proceeds from the Senior Notes of \$355.6 million was used to pay for the redemption. On December 20, 2010, these funds which included \$354.1 million of principal in addition to \$1.5 million of accrued interest for the period up to January 19, 2011 period, were put in trust with the Company's debenture trustee until payment on January 19, 2011. The convertible debentures were no longer outstanding as of this date. (See the section on Convertible Debentures below for further details.)

Shareholders' equity decreased by \$135.5 million to \$778.5 million at December 31, 2010 from \$914.0 million at December 31, 2009, due to a \$27.2 million decrease in Accumulated Other Comprehensive Income, a \$2.3 million decrease in Non-controlling interest, \$82.1 million of net losses and \$24.2 million of dividends declared to shareholders in 2010. The offset was an increase in Contributed surplus of \$0.3 million related to compensation expense on stock-based options. The decline in Accumulated Other Comprehensive Income is related to the unrealized losses on translating the self-sustaining foreign operations of \$36.8 million, offset by an unrealized gain on foreign gain on the translation adjustment on intercompany balances of \$5.7 million. The remaining offset relates to the change in fair value of the derivatives as cash flow hedges of \$3.3 million, in addition to the \$0.6 million related to the termination of the cash flow hedge.

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

RATIO	December 31, 2010	THRESHOLD
Consolidated Senior Debt to Consolidated EBITDA <sup>(1)</sup>	<b>0.96:1</b>	3.00:1 maximum
Consolidated Total Debt to Consolidated EBITDA <sup>(2)</sup>	<b>3.24:1</b>	4.00:1 maximum
Consolidated EBITDA to Consolidated Cash Interest Expense <sup>(3)</sup>	<b>4.04:1</b>	2.75:1 minimum

(1) Maximum Consolidated Senior Debt to Consolidated EBITDA means the consolidated balance of the revolving facility at quarter end to consolidated EBITDA for the trailing twelve months (TTM).

(2) Maximum Consolidated Total Debt to Consolidated EBITDA means the consolidated long term debt balance at quarter end, plus the current-portion of long-term debt, to consolidated EBITDA for the TTM.

(3) Minimum Consolidated EBITDA to Consolidated Cash Interest Expense means the consolidated EBITDA for TTM to the cash interest expense on all debt balances for TTM.

Readers are cautioned that the ratios noted above do not have standardized meanings prescribed in GAAP. More specific information regarding the debt covenants is available in the credit facility agreement which has been filed with SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com).

The following table summarizes Trinidad's existing term-debt facility:

Debt Facility	Currency	Amount	Amount drawn at December 31, 2010	Maturity <sup>(1)</sup>	Repayment requirements
Revolving CDN\$ credit facility	CDN\$	\$200.0 million	\$120.0 million	December 16, 2014	None
Revolving US\$ facility	US\$	\$100.0 million	\$50.0 million	December 16, 2014	None

(1) Maturity is subject to annual extensions of an additional year on each anniversary date of the closing date upon the consent of the lenders holding two-thirds of the aggregate commitments under the credit facility.

The facility is secured by a general guarantee over the assets of the Company and its subsidiaries.

### Convertible debentures

In connection with the acquisition of Axxis, Trinidad issued \$354.3 million in unsecured subordinated convertible debentures, of which \$325.0 million was issued through a public offering and \$29.3 million was issued to the former owners of Axxis. The debentures were convertible into shares of Trinidad at the option of the holder at any time prior to maturity at a conversion price of \$19.30 per share. They had a face value of \$1,000, a coupon rate of 7.75% and a maturity date of July 31, 2012, with interest being paid semi-annually on June 30 and December 31. Trinidad had the option to redeem the debentures in whole or in part at a redemption price of \$1,000 after December 31, 2010 and before their maturity date. On redemption or maturity, Trinidad could elect to satisfy its obligation to repay the principal by issuing common shares. The value of the conversion feature at the time of issuance was determined using the Black-Scholes pricing model to be \$28.2 million and was recorded as equity with the remaining \$326.1 million allocated to long-term debt, net of \$13.6 million of transaction costs. The debentures were accreted such that the liability at maturity would equal the face value of the debt.

On December 16, 2010, the Company gave notice for early redemption of its outstanding convertible unsecured subordinated debentures for the total outstanding value of \$354.1 million originally due in 2012. The notice of redemption was required to be given 30 days prior to redemption; therefore, the redemption date occurred on January 19, 2011. During this 30 day period, no conversion to shares occurred. A redemption price of \$1,004.03 per debenture was awarded consisting of \$1,000 principal and accrued and unpaid interest. A portion of the proceeds from the Senior Notes of \$355.6 million was used to pay for the redemption. On December 20, 2010, these funds which included \$354.1 million of principal in addition to \$1.5 million of accrued interest for the period up to January 19, 2011 period, were put in trust with the Company's debenture trustee until payment on January 19, 2011.

In accordance with CICA handbook section 3855.45-49, Trinidad has met the requirements for a financial liability to be derecognized and extinguished from its consolidated balance sheet as at December 31, 2010. According to the debenture's Indenture agreement, Trinidad has been legally released of this liability due to the following indenture requirements performed by the Company and trustee. The requirements include that the funds were paid to the trustee and held in trust and were beyond the control of Trinidad, and the officers' certificate delivered to the trustee. The trustee has provided a release and discharge of the indenture and the trustee has mailed redemption notices to the debenture holders.

As the debenture met the extinguishment requirements prior to the year ended December 31, 2010, Trinidad's consolidated statement of operations includes in interest on convertible debentures the remaining unamortized accreted amount of \$10.1 million. Also included in this interest expense is the remaining unamortized deferred financing costs related to the debentures of \$4.3 million. The equity portion of \$28.2 million was transferred to contributed surplus, as the value of the conversion option was deemed to be nil upon redemption.

## COMMITMENTS AND CONTINGENCIES

Trinidad has several capital and operating lease agreements on buildings and equipment. The future lease obligations for the next five years are summarized below:

(\$ thousands)

2011	2,381
2012	2,409
2013	2,283
2014	4,612
2015	1,615
Thereafter	289

### Rig Construction

Trinidad's former rig construction program has two remaining rigs left to complete and deliver. Expected capital costs to complete these rigs total approximately \$3.8 million. These rigs are expected to be delivered in the first quarter of 2011 and will be under long-term, take-or-pay contracts. Outside this program, Trinidad has one additional rig that is contracted to be delivered in the latter half of 2011.

### 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 financial statements.

## SHAREHOLDERS' EQUITY

As at December 31,

(\$ thousands)

	2010	2009
Shareholders' equity – Common shares	951,863	951,863

Common shares at December 31, 2010, were \$951.9 million, which was consistent with the December 31, 2009 balance as there was no share activity within Trinidad for the year of 2010.

Common shares as at March 2, 2011 were \$951.9 million (120,840,962 shares).

## GOING CONCERN

The Company's MD&A and financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Trinidad's ability to continue as a going concern is substantially dependent on, but not limited to, the successful execution of the Company's objectives and strategies outlined in this MD&A, as well as the Company's ability to be proactive in managing these objectives and strategies in a timely manner. This financial information does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should Trinidad be unable to continue as a going concern.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the annual consolidated financial statements requires that certain estimates and judgements be made with regard to the reported amount of revenues and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management judgement. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the annual consolidated financial statements may change as future events unfold, additional experience is acquired or Trinidad's operating environment changes.

### Capital assets

The accounting estimates that have the greatest impact on Trinidad's financial results are depreciation and amortization. Depreciation of Trinidad's capital assets and intangible assets incorporate estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change impacting the operation of Trinidad's capital assets.

Per review of the Company's capital assets in 2010, Management identified four of its rigs whose carrying value exceeded its fair value; therefore, an impairment loss of capital assets of \$23.9 million is recognized in the consolidated statement of operations to write the rigs down to their estimated net recoverable amounts.

### Stock-based compensation

Compensation expense for options under the Incentive Option Plan are estimates at grant date and are estimated based on various assumptions such as volatility, annual dividend yield, risk free interest rate and expected life using the Black-Scholes methodology to produce an estimate of the fair value of such compensation. Compensation expense, for options under the Deferred Share Unit Plan and Performance Share Unit Plan, are estimates at grant date calculated using the fair value method and are re-measured at the end of each reporting period based on volume-weighted average trading price of the Company's share for the five days immediately preceding period end.

### Allowance for doubtful accounts receivable

Trinidad performs credit evaluations of its customers and grants credit based on past payment history, financial conditions and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions. Trinidad's history of bad debt losses has generally been limited to specific customer circumstances; however, given the cyclical nature of the oil and natural gas industry, the credit risks can change suddenly and without notice.

### Goodwill and intangible assets

In accordance with Canadian GAAP, Trinidad performs an impairment test at least annually on intangible assets and goodwill and will conduct the test at an earlier date if changing circumstances indicate a possible impairment exists. In 2010, during Trinidad's review of goodwill impairment, the Company concluded that the decision to narrow the focus of its operations to internal rig building for future construction resulted in its carrying value of the goodwill balance exceeding the fair value of the goodwill in the Construction operations. As a result, Trinidad recorded an impairment charge on the entire amount of goodwill of the Construction operations for \$58.5 million in the consolidated statement of operations. (See the Impairment of Goodwill section of this MD&A for further details.) There was no impairment identified during the 2009 annual impairment test on goodwill balances.

For the year ended December 31, 2010, the consolidated statement of operations includes an impairment loss on intangible assets of \$0.9 million related to a reduction in value in patents, customer relationships, and trade name. In 2009, an impairment test was performed and the Company recorded an intangible impairment charge of \$23.2 million related to the Bareboat Charters in the Company's US and International segment. (See the Impairment of Intangible Assets section of this MD&A for further details.)

### Fair value of interest rate swaps

The fair value of the interest rate swaps is based on quoted market prices from future projected interest rates and adjusted on a quarterly basis for monthly settlements and changes in projections. Trinidad receives the valuation from the contract counterparty on a quarterly basis, reviews it for reasonability, and records the associated change in fair value at each reporting period.

### Convertible debentures

Prior to redemption on the convertible debentures on December 16, 2010, the proceeds from the offering were bifurcated into separate liability and equity components. The value of the conversion feature was based on the Black-Scholes option pricing model and recorded as equity on the consolidated balance sheets. (See the Convertible Debenture section above for further details.)

### Future income taxes

The recording of future income tax involves the use of various assumptions to estimate the amounts and timing of the reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes. It also involves the estimation of the effective tax rates for future fiscal years. The assumptions used, which include, but are not limited to, estimated results of operations, tax pool claims and accounting deductions, are based on management's current estimates and will likely change in future periods based on actual results and accordingly, so will the estimates.

## FUTURE CHANGES IN ACCOUNTING POLICIES

### International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian publicly accountable enterprises will be required to report financial statements under International Financial Reporting Standards. The transition to IFRS will require the Company to retroactively apply IFRS to the consolidated financial statements effective January 1, 2011, except where IFRS 1 – *First Time Adoption of International Financial Reporting Standards* (IFRS 1) permits prospective application or prohibits retroactive adoption of certain standards. Accordingly, the Company will begin presenting IFRS compliant financial statements, including comparative results, for the interim and year-end reporting periods ending December 31, 2011.

IFRS is based on a conceptual framework similar to Canadian GAAP, but there are currently significant differences in certain recognition, measurement and disclosure requirements included in specific IFRS standards. The Company has developed an IFRS implementation plan that attempts to address both the impact of current IFRS standards and the potential for change through the convergence date. The key aspects and status of the current IFRS implementation plan are as follows:

Phase	Key Activity/Milestones	Status
<b>Initial assessment</b>	<p>Identify key differences between current Canadian GAAP and IFRS and categorize potential impacts as high, medium and low.</p> <p>Assemble and educate a core IFRS project team that includes the appropriate levels of senior management and crosses functional areas (i.e., accounting, operations, IT, investor relations, etc.).</p> <p>Develop a communication plan and structure to ensure executive management, Board of Directors, Audit Committee and external auditors are kept current on IFRS implementation plan progress and results.</p>	<p>Complete.</p> <p>Note that changes to IFRS standards continue to be monitored by the IFRS team and added to the IFRS convergence plan as required.</p>
<b>Research and impact assessment</b>	<p>Research specific accounting differences identified in the initial assessment phase.</p> <p>Identify potential impacts on applicable functions, including financial statements, accounting policies and processes, performance metrics, business and operations management, banking arrangements, information systems, control environment and internal and external communications.</p> <p>Identify transition options available under IFRS 1.</p> <p>Communicate findings to executive management, Board of Directors, Audit Committee and external auditors.</p>	<p>Assessment of all existing standards is complete.</p> <p>Identification of impacts of existing standards on all applicable functions is complete.</p> <p>Transition options have been identified and IFRS 1 exemptions have been chosen.</p> <p>Communication with executive management, Board of Directors, Audit Committee and external auditors is on-going based on a pre-determined schedule.</p>

Phase	Key Activity/Milestones	Status
<b>Solution development</b>	<p>Finalize transitional (i.e. IFRS 1) and ongoing accounting policy choices.</p> <p>Quantify impact of accounting differences identified in the research and impact assessment phase.</p> <p>Develop an implementation plan and timeline for changes to key functions addressed in the research and impact assessment phase, including drafting initial adoption and go-forward IFRS compliant financial statements in addition to necessary MD&amp;A disclosures.</p>	<p>On-going accounting policies finalized.</p> <p>Quantification of the impact on opening balances due to (i) IFRS 1 transition provisions and (ii) IFRS accounting policy choices is on-going subject to necessary approval (see Implementation Phase below).</p> <p>Necessary changes to key functions have been identified. Draft IFRS compliant financial statements have been prepared, subject to necessary approvals (see Implementation Phase below).</p>
<b>Implementation</b>	<p>Implement changes to key functions and test output.</p> <p>Prepare opening January 1, 2010, balance sheet and 2011 and comparative 2010 IFRS compliant financial statements and related note disclosures.</p> <p>Prepare required MD&amp;A disclosures.</p> <p>Communicate findings to executive management, Board of Directors, Audit Committee, external auditors and external stakeholders, including investment community and bankers.</p>	<p>Necessary changes to accounting systems are currently being implemented and testing conducted.</p> <p>Determination of adjustments to opening balances and 2010 comparative financial statements is on-going and are subject to approval by executive management, Board of Directors, Audit Committee and external audits which is expected to be received in connection with the issuance of the 2011 quarterly financial statements.</p> <p>Communication of IFRS impact on stakeholders (e.g., lenders) has commenced and will continue throughout 2011.</p>

IFRS implementation is currently progressing according to plan. All IFRS transition provisions and accounting policies have been finalized and communicated to executive management, the Board of Directors, Audit Committee and external auditors. The determination of adjustments to opening balances at January 1, 2010 as well as the 2010 comparative IFRS consolidated financial statements is on-going and subject to necessary approvals from the Board of Directors, Audit Committee and external auditors, which is expected to be received in conjunction with the issuance of the 2011 consolidated financial statements. The impact of the identified IFRS accounting differences on other business functions, including the control environment, has been assessed and changes to these functions is being implemented where necessary. Communications with external stakeholders regarding the impact of IFRS on all aspects of Trinidad's operations is on-going and is expected to continue throughout 2011.

The following is a summary of differences between IFRS and Canadian GAAP which are expected to have a significant impact Trinidad's financial results and related business processes. The discussion below includes only those IFRS standards that differ from Canadian GAAP and are applicable to Trinidad, whether or not they ultimately impact Trinidad's financial statements; if an IFRS standard differs from Canadian GAAP but is not applicable to Trinidad, or if there are no significant differences between IFRS and Canadian GAAP standards, they are not addressed. The amounts presented in the analysis below are initial estimates only and are subject to change and review and approval by the external auditors.

1. Property, plant and equipment (IAS 16) – Canadian GAAP and IFRS are largely aligned except for the more prescriptive requirement under IFRS to disclose and separately amortize components of property, plant and equipment with differing useful lives, including qualifying recertification costs. Trinidad has identified new components under IAS 16 with differing useful lives compared to Canadian GAAP. However, except for the impact of capitalizing and depreciation recertification costs, the changes to components and associated depreciation rates are largely offsetting and Trinidad's annual depreciation expense is not expected to materially change under IFRS.

The impact of capitalizing and depreciating recertification costs is more significant. Under Canadian GAAP, the Company capitalized the initial certification costs that are incurred in conjunction with a rig build as part of the cost of the rig and depreciated those costs over the estimated life of the rig as a whole (generally 4,200 drill days); costs associated with subsequent recertifications were expensed as incurred. Under IFRS, the initial certification costs will continue to be capitalized as part of the rig build but will be depreciated over 1,000 drill days consistent with the expected timing of the recertification cycle. Subsequent recertification costs will also be capitalized and depreciated over 1,000 drill days. The Company has estimated an adjustment to the January 1, 2010 opening consolidated balance sheet related to recertification costs that results in a decrease to the carrying cost of property, plant and equipment of approximately \$8.0 million to \$9.5 million, offset to opening retained earnings. The adjustment results in a decrease to the carrying value of property, plant and equipment as a number of assets with significantly higher initial certification costs have yet to incur a subsequent recertification resulting in an adjustment to depreciation expense only and no corresponding adjustment to operating expenses.

Trinidad is in the process of determining the impact of capitalizing and depreciating recertification costs on the restated 2010 IFRS consolidated financial statements. The annual adjustment is expected to result in an increase in depreciation expense of approximately \$3.8 million to \$4.8 million, offset by a decrease in operating expenses of approximately \$3.5 million to \$4.5 million, resulting in a minimal impact to net earnings.

The impact on future consolidated financial statements will depend on the magnitude and timing of recertification procedures. However, it is expected that the decrease in operating expense from capitalizing recertification costs will be only partially offset by the resulting increase in annual depreciation expense, resulting in an overall increase in net income as the existing fleet of rigs age and are subject to subsequent recertifications.

The Company was able to use available historical financial and accounting data to determine the historical cost base under IAS 16, and therefore, the deemed cost transition provisions afforded under IFRS 1 will not be adopted.

2. Asset impairments (IAS 36) - IFRS and Canadian GAAP differ significantly in the methodology applied to impairments of non-financial assets, including the method by which impairment tests are conducted, how assets are aggregated, how goodwill is allocated and inputs used in determining recoverable amounts. The differences could result in more frequent recognition of impairment losses in the income statement. In addition, IFRS allows for subsequent reversal of previously recognized impairment losses (except impairment losses recognized on goodwill), which is currently precluded under Canadian GAAP. The differences between IFRS and Canadian GAAP are expected to have an impact on Trinidad's consolidated income statements and balance sheets, particularly the requirement to reverse previous impairment losses which could lead to earnings volatility. Trinidad has finalized a methodology and model for asset impairment testing pursuant to the guidance of IAS 36 which includes identification and aggregation of relevant cash generating units ("CGU"), allocation of goodwill to applicable CGUs (or groups of CGUs) and development of appropriate discount rates and other specified inputs and will perform asset impairment tests as and when required by IFRS.

In addition, IFRS 1 requires an impairment test be performed on goodwill at the date of IFRS transition. Trinidad performed an impairment test on its goodwill balances and determined that there is no impairment at January 1, 2010. IFRS 1 also requires that previously impaired assets, other than goodwill, need to be

analyzed at January 1, 2010 to determine if a write-up of the impairment is required. Trinidad has analyzed its previous impairment losses and determined that no write up of previously written down amounts is required at January 1, 2010.

3. **Borrowing costs (IAS 23)** – IFRS requires the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of an asset requiring a substantial period of time to get ready for its intended use or sale. Canadian GAAP does not require the capitalization of any borrowing costs and therefore, Trinidad has historically expensed such costs when incurred. However, the Company manufactures drilling and service rigs which can take a significant period of time to construct and directly incurs general debt to fund the construction. Accordingly, the Company has developed an accounting policy for the capitalization of borrowing costs that includes the definition of an asset that would be considered a qualifying asset, a commencement and cessation date for borrowing cost capitalization, the types of borrowings that will be considered directly attributable to the qualifying asset and expenses that are considered borrowing costs. Capitalizing borrowing costs will increase the carrying value of property, plant and equipment on the consolidated balance sheet and will impact the consolidated income statement as net income will generally increase resulting from a reduction in period interest expense that is only partially offset by an increase in depreciation expense once the qualifying asset is in use.

Trinidad has completed a preliminary determination of the impact of capitalizing borrowing costs on the restated 2010 IFRS consolidated financial statements. The annual adjustment is expected to result in a decrease in interest expense of approximately \$2.9 million to \$3.3 million, offset by a minimal increase in depreciation expense of less than \$0.1 million, resulting in a net increase to consolidated net income of \$2.8 million to \$3.2 million.

The magnitude of the impact on future consolidated financial statements will depend on the timing and magnitude of actual asset construction which will only be determinable at each future reporting date.

There will be no adjustment to related opening balances upon transition to IFRS as IFRS 1 provides a retroactive exemption to the application of IAS 23 which the Company has adopted resulting in the capitalizing of borrowing costs only on those assets whose construction commenced after January 1, 2010.

4. **Share-based payments (IFRS 2)** – Canadian GAAP and IFRS differ with respect to accounting for forfeitures and graded vesting provisions of all share-based payments. Under IFRS, the value of share-based payment with graded vesting terms is determined by treating each vesting installment as a separate award. In addition, IFRS requires forfeitures be accounted for by estimating the number of awards expected to vest, trued up for the number of awards actually vested at each vesting date. Under Canadian GAAP, Trinidad has historically treated equity settled share-based payments (i.e., stock options) with graded vesting terms as a single award and accounted for forfeitures only as they occur. However, the nature of the vesting installments of the Company's stock options do not vary significantly in terms of impact on fair value and expected forfeitures are not currently significant. Consequently, the Company has determined that associated compensation expense calculated under IFRS will not be materially different compared to Canadian GAAP, and therefore, the impact of Trinidad's restated 2010 IFRS consolidated financial statements and future consolidated financial statements is not expected to be significant.

IFRS and Canadian GAAP also differ with respect to the determination of fair value for cash settled share-based payments. IFRS requires that such awards be measured at fair value while Canadian GAAP requires cash settled share-based payments to be measured at intrinsic value. Trinidad's currently has a number of cash settled share based payments outstanding (i.e., Performance Share Units and Deferred Share Units) that have historically been measured at intrinsic value under Canadian GAAP but will be measured at fair value upon conversion to IFRS. However, the terms of these cash settled awards are such that fair value approaches intrinsic value, and therefore, there will be no impact on Trinidad's restated 2010 IFRS financial statements and future consolidated financial statements.

There will be no opening adjustment from the application of IFRS 2 as Trinidad will adopt the transition provisions of IFRS 1 that requires restatement of share-based payment transactions only to the extent

that there are unvested awards outstanding at the IFRS transition date. At January 1, 2010 the Company had minimal unvested share-based payments affected by IFRS 2, and therefore, the impact from applying IFRS 2 to these awards was determined to be immaterial.

5. Foreign exchange (IAS 21) - Canadian GAAP and IFRS are largely aligned with respect to accounting for foreign exchange transactions and translation of foreign-currency-based financial statements. However, the process used to determine foreign currency exposure differs slightly under IFRS and could result in a different conclusion than would be made under Canadian GAAP. The Company has applied the principles outlined in IAS 21 to determine its exposure to foreign currency fluctuations for each of its material operations and has concluded that there is currently no difference in the functional currency determination under IFRS compared to Canadian GAAP. In addition, Trinidad has elected to adopt the exemption in IFRS 1 that allows the cumulative translation adjustment balance reported in accumulated other comprehensive income (loss) balance at January 1, 2010 to be eliminated. At January 1, 2010, the accumulated translated adjustment balance totaled a loss of \$49.6 million and will be eliminated with the offset included in opening retained earnings, resulting in no net change to consolidated shareholders' equity.
6. Business combinations and non-controlling interests (IFRS 3) - IFRS differs significantly from existing Canadian GAAP in the principles and requirements governing how an acquiring company recognizes and measures identifiable net assets acquired in a business combination, including the measurement of non-controlling interests and goodwill and the subsequent accounting for non-controlling interests when a change in ownership occurs. However, the new Canadian GAAP standards 1582, "Business Combinations"; 1601, "Consolidated Financial Statements"; and 1602 "Non-controlling Interests", result in substantial convergence with IFRS. The early adoption of these new Canadian GAAP standards by Trinidad, effective January 1, 2009, together with the IFRS 1 retroactive exemption afforded on business combinations, which has been adopted by Trinidad, will result in no significant impact on the Company's consolidated financial statements upon IFRS transition.
7. Financial instruments, including hedges (IFRS 7, IAS 32 and IAS 39) - Canadian GAAP and IFRS are largely converged with respect to the accounting for and disclosure and presentation of financial instruments, including hedges. However, there are some differences related to the treatment of contracts with embedded derivatives, and in specific cases the measurement and re-measurement of financial instruments and hedges. Trinidad has analyzed these differences and determined they do not impact the Company. In addition, the mandatory exemptions outlined in IFRS 1 related to financial instruments and hedges, specifically that de-recognition of financial instruments must be applied prospectively and that hedge recognition is only attainable if such a hedge is designated under a previous GAAP, have been analyzed by Trinidad and have resulted in no adjustments to consolidated financial statements.
8. Construction contracts (IAS 11) - IFRS differs from Canadian GAAP with respect to the revenue recognition models allowed for construction contracts. Specifically, IAS 11 does not allow the completed contract method of accounting even when reliable estimates of progress toward completion cannot be made. Instead, where reliable estimates of progress toward completion cannot be made, IAS 11 requires that revenue be recognized to the extent costs are incurred, resulting in a gross profit of zero being recognized until the end of the contract. Under the Canadian GAAP completed contract method, costs associated with the contract are reported as an asset and released to expense at the end of the contract when all revenue is also recognized, resulting in no impact on gross profit until the end of the contract. The total amount of revenue and gross margin reported under IAS 11 and Canadian GAAP will ultimately be the same, but the timing of revenue recognition will differ and reported gross margin will be negatively affected under IAS 11 until the construction contract is completed. However, the difference will only be realized in periods where the construction contract extends over a balance sheet reporting date. Trinidad currently accounts for a small percentage of contracts using the completed contract method of revenue recognition. At January 1, 2010, there were no such construction contracts in progress, and, therefore, the differences between IFRS and Canadian GAAP with respect to completed contract revenue recognition will have no impact on Trinidad's opening consolidated balance sheet upon IFRS transition. Further, there were no material in-process construction contracts subject to completed contract revenue recognition that extended over a quarter end in 2010, and therefore, there will be no impact on the restated 2010 IFRS consolidated

financial statements. The impact of IAS 11 on future consolidated financial statements will depend on the timing and magnitude of construction contracts subject to completed contract revenue recognition which will be assessed at each reporting date.

9. Deferred taxes (IAS 12) – IFRS and Canadian GAAP differ in the methodology of the tax accounting treatment on transactions and other events. IFRS prescribes that accounting for the tax consequences of transactions and other events should be consistent with the accounting for the transactions and other events themselves. Therefore, where transactions and other events are recognized in net earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in net earnings. For transactions that are recognized outside of the statement of operations, either in other comprehensive income or directly in shareholder’s equity, any related tax effects should also be recognized outside of the statement of operations. The most significant impact of IAS 12 on Trinidad will result from accounting policy decisions made under other IFRS standards as mentioned above. The impact on accounting for the tax consequences of transactions and other events under IFRS versus GAAP is in progress and will be quantified and disclosed when completed.

In conjunction with the assessment of the financial statement implications of the transition to IFRS, the implementation team continues to assess the impact of IFRS convergence on internal controls, the control environment and IT and other financial reporting systems. The IFRS standards analyzed above are expected to have an impact in these areas, particularly with respect to property, plant and equipment, asset impairment, borrowing costs and income taxes. The necessary changes to these systems and function have been identified and are expected to be fully implemented by the end of the first quarter of 2011. In addition, to the impact of IFRS on the consolidated financial statements and related impacts on non-GAAP measures and debt covenants, have been and will continue to be addressed with impacted stakeholders such as lenders and the investment community.

## 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, 2010. Trinidad’s CEO and CFO have concluded, based on these evaluations of the design and operating effectiveness at December 31, 2010, 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 Canadian GAAP. 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 financial statements for external purposes in accordance with Canadian GAAP.

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. 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.

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.

In accordance with the provisions of section 3.3 of NI 52-109, in relation to the acquisition of Victory Rig Corporation effective August 18, 2008, Trinidad has removed its limitation on its assessment of Victory Rig Corporation's internal control environment. Trinidad's management has successfully aligned Victory Rig Corporation's systems, processes and controls with corporate standards and has concluded positively on the design and effectiveness of DC&P or ICFR for this subsidiary.

## RELATED PARTY TRANSACTIONS

All related party transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Trinidad engages the law firm of Blake, Cassels & Graydon LLP to provide legal advice. One partner of this law firm holds a board position with Trinidad, and another partner is an officer of the Company. Trinidad incurred legal fees of \$0.8 million (2009 - \$2.3 million) to Blake, Cassels & Graydon LLP. As of December 31, 2010, \$0.2 million (2009 - \$nil) was due to Blake, Cassels & Graydon LLP.

During the second quarter of 2010, Trinidad sold equipment valued at \$0.2 million to an executive of one of Trinidad's companies. This was representative of an arm's length transaction as the equipment was appraised by an independent party and sold at the appraised value.

During the first quarter of 2009, Trinidad purchased a parcel of land from 1010460 Alberta Ltd., a company owned by an executive officer within Trinidad's Canadian operations. The land purchase of \$1.6 million, as well as all of the purchase agreement's conditions, was representative of an unrelated party transaction. This property currently houses a facility used in the coring and surface casing division of the Canadian drilling operations.

## 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 are incorporated by reference herein. The Annual Information Form has been filed with SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com). Copies of the Annual Information Form may be obtained, on request without charge, by contacting Trinidad at (403) 265-6525.

## OUTLOOK

The first quarter of 2011 has begun strongly. Activity levels remain robust and demand for high quality equipment such as Trinidad's is high. Dayrates are continuing to show upward momentum and now, with the majority of the Company's reactivation costs complete, gross margins are also increasing. Ongoing customer demand and the continuing strength in crude oil prices indicate that these improved industry conditions should continue into at least the first half of 2011, if not the full year.

While demand is strong for Trinidad's existing equipment, there is interest from current and new customers for newly constructed equipment that would be well suited to plays where natural gas liquids contents tends to be high. Trinidad will consider requests for new equipment and assess whether the contract terms and project returns meet the Company's internal hurdles. Trinidad is committed to reducing debt levels relative to the size of its business and will review its growth opportunities while balancing this with its debt reduction strategy.

Moving forward Trinidad has decided to narrow the focus of its rig construction operations to the rig design, commissioning and development of new technology. The operations will be limited to these areas and focus on constructing rigs for internal purposes. Trinidad will continue to specialize in designing and building the technically advanced equipment that it is known for and outsource specific components and core fabrication which are more widely available. These changes are expected to reduce the Company's cost structure and protect its internally created technology, while retaining the ability to design and assemble the state-of-the-art drilling rigs that are in demand in today's drilling environment.

Trinidad expects to complete the last two rigs from the 2010 construction program in early 2011. These rigs are expected to be in operation during the first quarter of the year. In addition, the Company has contracted one rig to be built in 2011. The rig is expected to be delivered for operation in the Horn River in the second half of the year and is backed by a five-year, take-or-pay contract. In addition, Trinidad anticipates making minor upgrades to a small number of rigs throughout the year in order to improve their marketability. Overall Trinidad's fleet of new, deep capacity rigs is well suited to the current drilling environment and the Company expects that it will maintain its ability to achieve industry-leading utilization rates. Trinidad has approximately half of its fleet under long-term, take-or-pay contracts with an average term remaining of 1.7 years. This strategic positioning allows the Company to have improved certainty and visibility for a significant portion of its revenue stream while also maintaining exposure to increasing dayrates on the remainder of its equipment.

Trinidad's outlook for 2011 is for an improvement over the last year. Stronger oil prices and industry conditions, as well as more stable equity and credit markets provide a solid base for improved results this year. The Company remains concerned with the high natural gas storage levels and relatively low natural gas prices; however, the industry is showing a strong ability to refocus its development plans towards crude oil and natural-gas-liquids rich projects. This activity along with a number of shale gas projects that remain economic at lower natural gas prices bode well for continued demand in 2011. Trinidad's modern, technically advanced equipment and its reputation for top performance position the Company well to benefit from these stronger conditions.

## 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 Canadian GAAP 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 gross margin, gross margin percentage, EBITDA, Adjusted EBITDA, cash flow from operations before change in non-cash working capital, Adjusted net earnings, Adjusted net earnings before refinancing costs, net debt and working capital. These non-GAAP measures are identified and defined as follows:

**"Gross margin"** is used by management to analyze overall and segmented operating performance. Gross margin is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. Gross margin is calculated from the consolidated statements of operations and retained earnings (deficit) and from the segmented information contained in the notes to the consolidated financial statements and is defined as revenue less operating expenses.

**"Gross margin percentage"** is used by management to analyze overall and segmented operating performance. Gross margin percentage is calculated from the consolidated statements of operations and retained earnings (deficit) and from the segmented information in the notes to the consolidated financial statements and is defined as gross margin divided by revenue.

**"EBITDA"** is a measure of the Company's operating profitability. EBITDA provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, assets are depreciated, amortized and impaired, or how the results are taxed in various jurisdictions.

EBITDA is derived from the annual consolidated statements of operations and retained earnings and is calculated as follows:

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

	2010	2009	2008
Net earnings (loss)	(82,133)	(22,439)	82,174
Plus:			
Interest on long-term debt	29,536	21,163	23,709
Interest on convertible debentures	51,629	35,406	34,934
Depreciation and amortization	101,788	87,032	94,342
Impairment of capital assets	23,853	–	–
Impairment of intangible assets	912	23,189	–
Impairment of goodwill	58,522	–	38,154
(Gain) loss on sale of assets	(3,315)	10,544	(29,312)
Income taxes	6,315	9,612	43,469
<b>EBITDA</b>	<b>187,107</b>	<b>164,507</b>	<b>287,470</b>

“Adjusted EBITDA” is used by management to analyze EBITDA (as defined above) prior to the effect of foreign exchange loss (gain), stock-based compensation and are not intended to represent net earnings as calculated in accordance with Canadian GAAP.

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

	2010	2009	2008
EBITDA	187,107	164,507	287,470
Plus:			
Stock-based compensation	3,971	4,366	2,465
Foreign exchange loss (gain)	7,068	24,638	(33,478)
<b>Adjusted EBITDA</b>	<b>198,146</b>	<b>193,511</b>	<b>256,457</b>

“Cash flow from operations before change in non-cash working capital” is used to assist management and investors in analyzing Trinidad’s liquidity and ability to generate cash to finance investing and financing activities. Cash flow from operations before change in non-cash working capital is derived from the annual consolidated statements of cash flows and is defined as cash flow from operating activities plus or minus the change in non-cash operating working capital.

“Adjusted net earnings” is used by management to analyze net earnings prior to the effect of foreign exchange loss (gain), stock-based compensation charges and impairment charges of capital assets, intangible assets and goodwill, respectively, and are not intended to represent net earnings as calculated in accordance with Canadian GAAP.

Adjusted net earnings are derived from the annual consolidated statements of operations and retained earnings are calculated as follows:

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

	2010	2009	2008
Net (loss) earnings	(82,133)	(22,439)	82,174
Plus:			
Stock-based compensation	3,971	4,366	2,465
Foreign exchange loss (gain)	7,068	24,638	(33,478)
Impairment of capital assets	23,853	–	–
Impairment of intangible assets	912	23,189	–
Impairment of goodwill	58,522	–	38,154
<b>Adjusted net earnings</b>	<b>12,193</b>	<b>29,754</b>	<b>89,315</b>

“Adjusted net earnings before refinancing costs” is used by management to analyze adjusted net earnings prior to the effect of refinancing costs and are not intended to represent net earnings as calculated in accordance with Canadian GAAP. These refinancing costs represent previous deferred financing charges related to the Company’s former long-term debt.

Adjusted net earnings before refinancing costs is derived from the annual consolidated statements of operations and retained earnings and is calculated as follows:

For the years ended December 31, (\$ thousands)	2010	2009	2008
Adjusted net earnings	12,193	29,754	89,315
Plus:			
Refinancing costs on long-term debt	5,221	–	–
Refinancing costs on convertible debentures	14,381	–	–
Adjusted net earnings	31,795	29,754	89,315

“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 balance sheets and is calculated as follows:

For the years ended December 31, (\$ thousands)	2010	2009	2008
Current assets	197,786	169,654	285,690
Less:			
Current liabilities	70,975	78,981	199,901
Working capital	126,811	90,673	85,789

“Net debt” is used by management and the investment community to analyze the amount of debt less the working capital of the Company.

Net debt is derived from the annual consolidated balance sheets and is calculated as follows:

For the years ended December 31, (\$ thousands)	2010	2009	2008
Long-term debt	606,154	216,273	321,768
Convertible debentures	–	331,249	323,381
Less:			
Working capital	126,811	90,673	85,789
Net debt	479,343	456,849	559,360

References to gross margin, gross margin percentage, EBITDA, Adjusted EBITDA, cash flow from operations before changes in non-cash working capital, Adjusted net earnings, Adjusted net earnings before refinancing costs and net debt throughout this MD&A have the meanings set out above.

Trinidad is a growth-oriented corporation whose common shares trade on the Toronto Stock Exchange (TSX) under the symbol TDG. Trinidad’s divisions operate in the drilling, well-servicing, coring and barge-drilling sectors of the North American oil and natural gas industry with operations in Canada, the United States and Mexico. 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.

March 2, 2011

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The financial statements of Trinidad Drilling Ltd. ("Trinidad" or the "Company") and all information contained in this annual report are the responsibility of the management of Trinidad.

The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles consistently applied, and include certain estimates that are based on management's best judgments. Actual results may differ from these estimates and judgments. In the opinion of management the consolidated financial statements are presented fairly in all material respects. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that of the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial reporting.

The Audit Committee of Trinidad is responsible for reviewing and approving the financial statements and ensures that management fulfills its responsibility for financial reporting. The Audit Committee meets with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements. For the year ended December 31, 2010, the consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was engaged by the Board of Directors and appointed by the shareholders to audit Trinidad's consolidated financial statements in accordance with Canadian Generally Accepted Auditing Standards and provide an independent professional opinion. PricewaterhouseCoopers has full and free access to the Audit Committee.



**Lyle C. Whitmarsh**  
President and Chief Executive Officer



**Brent J. Conway**  
Executive Vice President and Chief Financial Officer

March 2, 2011

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

### 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 balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and retained earnings (deficit), comprehensive loss, accumulated comprehensive income (loss) and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

#### 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 Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statement 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.

#### 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, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

Calgary, Alberta

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

As at December 31,

(\$ thousands)

	2010	2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	7,905	4,198
Accounts receivable	159,866	139,418
Inventory (note 3)	25,448	20,378
Prepaid expenses	4,567	5,660
	<b>197,786</b>	<b>169,654</b>
Capital assets (note 4)	1,254,135	1,302,591
Intangible assets (note 5)	2,031	3,806
Goodwill (note 6)	84,641	147,962
	<b>1,538,593</b>	<b>1,624,013</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	62,291	51,055
Dividends payable	6,042	6,042
Deferred revenue	105	1,965
Current portion of long-term debt, net of transaction costs (note 7)	546	14,146
Current portion of fair value of interest rate swaps	1,991	5,773
	<b>70,975</b>	<b>78,981</b>
Long-term debt, net of transaction costs (note 7)	606,154	216,273
Convertible debentures, net of transaction costs (note 8)	–	331,249
Fair value of interest rate swaps	–	1,886
Future income taxes (note 9)	82,988	81,666
	<b>760,117</b>	<b>710,055</b>
<b>Shareholders' equity</b>		
Common shares (note 10(a))	951,863	951,863
Convertible debentures (note 8)	–	28,207
Contributed surplus (note 10(b))	56,388	27,832
Accumulated other comprehensive loss	(80,646)	(53,453)
Deficit	(149,129)	(42,828)
Equity attributable to shareholders	778,476	911,621
Non-controlling interest	–	2,337
	<b>778,476</b>	<b>913,958</b>
	<b>1,538,593</b>	<b>1,624,013</b>

Commitments and contingencies (note 14)

(See Notes to the Consolidated Financial Statements)



**Michael Heier**  
Director



**Naveen Dargan**  
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

For the years ended December 31,

(\$ thousands except share and per share data)

	2010	2009
<b>Revenue</b>		
Oilfield services	643,612	578,402
Bareboat Charter gain	1,413	1,550
Other	1,633	2,639
	<b>646,658</b>	<b>582,591</b>
<b>Expenses</b>		
Operating	394,563	335,849
General and administrative	53,949	53,117
Interest on long-term debt (note 7)	29,536	21,163
Interest and accretion on convertible debentures (note 8)	51,629	35,406
Stock-based compensation	3,971	4,366
Foreign exchange loss	7,068	24,638
Depreciation and amortization	101,788	87,032
(Gain) loss on disposal or sale of assets	(3,315)	10,544
Impairment of capital assets (note 4)	23,853	–
Impairment of intangible assets (note 5)	912	23,189
Impairment of goodwill (note 6)	58,522	–
	<b>722,476</b>	<b>595,304</b>
<b>Earnings (loss) before income taxes</b>	<b>(75,818)</b>	<b>(12,713)</b>
<b>Income taxes</b> (note 9)		
Current tax expense	2,892	1,871
Future tax expense	3,423	7,741
	<b>6,315</b>	<b>9,612</b>
<b>Net earnings (loss) before non-controlling interest</b>	<b>(82,133)</b>	<b>(22,325)</b>
<b>Net earnings attributable to non-controlling interest</b>	<b>–</b>	<b>114</b>
<b>Net earnings (loss)</b>	<b>(82,133)</b>	<b>(22,439)</b>
Dividends	(24,168)	(22,788)
<b>Retained earnings (deficit) - beginning of year</b>	<b>(42,828)</b>	<b>2,399</b>
<b>Retained earnings (deficit) - end of year</b>	<b>(149,129)</b>	<b>(42,828)</b>
<b>Earnings (loss) per share</b>		
Basic	(0.68)	(0.21)
Diluted	(0.68)	(0.21)
<b>Weighted average number of shares</b>		
Basic	120,840,962	107,915,093
Diluted	120,840,962	107,915,093

(See Notes to the Consolidated Financial Statements)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31,

(\$ thousands)

	2010	2009
<b>Net earnings (loss) before non-controlling interest</b>	<b>(82,133)</b>	<b>(22,325)</b>
Other comprehensive loss		
Change in fair value of derivatives designated as cash flow hedges, net of income tax (note 13)	<b>3,443</b>	2,292
Transfer of fair value changes due to termination of cash flow hedge	<b>625</b>	–
Foreign currency translation adjustment (note 18)	<b>(31,062)</b>	(96,876)
<b>Total other comprehensive loss</b>	<b>(26,994)</b>	<b>(94,584)</b>
<b>Total comprehensive loss</b>	<b>(109,127)</b>	<b>(116,909)</b>

(See Notes to the Consolidated Financial Statements)

## CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31,

(\$ thousands)

	2010	2009
<b>Accumulated other comprehensive (loss) income - beginning of year</b>	<b>(53,453)</b>	40,932
Other comprehensive loss attributable to shareholders <sup>(1)</sup>	<b>(27,193)</b>	(94,385)
<b>Accumulated other comprehensive loss - end of year</b>	<b>(80,646)</b>	<b>(53,453)</b>

(1) For the year ended December 31, 2010, the balance excludes \$0.2 million of recovery of the foreign currency translation adjustment on the sale of the Chilean assets (note 19).

(See Notes to the Consolidated Financial Statements)

## Equity attributable to non-controlling interest

For the years ended December 31,

(\$ thousands)

	2010	2009
<b>Equity attributable to non-controlling interest - beginning of year</b>	<b>2,337</b>	–
Recovery of equity attributable to non-controlling interest ownership	<b>(2,337)</b>	
Share issuance	–	2,422
Net earnings	–	114
Other comprehensive loss from foreign currency translation adjustment	–	(199)
<b>Equity attributable to non-controlling interest – end of year</b>	<b>–</b>	<b>2,337</b>

(See Notes to the Consolidated Financial Statements)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

(\$ thousands)

	2010	2009
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings (loss)	(82,133)	(22,439)
Items not affecting cash		
Effective interest on financing costs (note 13)	15,744	5,870
Accretion on convertible debentures (note 8(a,b))	15,909	5,296
Accretion on Senior Notes (note 7(a))	25	-
Fair value of interest rate swaps	362	-
Stock-based compensation	3,971	4,366
Unrealized foreign exchange loss	7,520	22,813
Depreciation and amortization	101,788	87,032
(Gain) loss on disposal or sale of assets	(3,315)	10,544
Impairment of capital assets (note 4)	23,853	-
Impairment of intangible assets (note 5)	912	23,189
Impairment of goodwill (note 6)	58,522	-
Future income tax expense	3,423	7,741
Non-controlling interest	-	114
	<b>146,581</b>	<b>144,526</b>
Change in non-cash operating working capital	(27,161)	(37,446)
	<b>119,420</b>	<b>107,080</b>
<b>Investing activities</b>		
Purchase of capital assets	(139,640)	(162,563)
Proceeds from dispositions of capital assets	24,118	4,762
Expenditures on intangibles	-	(75)
Change in non-cash investing working capital	1,003	14,280
	<b>(114,519)</b>	<b>(143,596)</b>
<b>Financing activities</b>		
Proceeds from Senior Notes (note 7(a))	449,108	-
Increase in long-term debt (note 7(b))	299,908	145,000
Decrease in long-term debt (note 7(b))	(350,960)	(226,664)
Redemption of convertible debentures (note 8(b))	(355,571)	-
Dividends paid	(24,168)	(31,072)
Debt financing costs	(19,846)	(2,619)
Proceeds on share issuance (note 10(a)), net	-	133,800
Repurchased shares (note 10(a))	-	(6,120)
Proceeds from non-controlling interest share issuance	-	2,422
	<b>(1,529)</b>	<b>14,747</b>
Cash flow from operating, investing, and financing activities	<b>3,372</b>	<b>(21,769)</b>
Effect of translation of foreign currency cash	335	(5,235)
Increase (decrease) in cash for the year	<b>3,707</b>	<b>(27,004)</b>
Cash and cash equivalents - beginning of year	4,198	31,202
Cash and cash equivalents - end of year	7,905	4,198
Interest paid	47,958	45,761
Interest received	118	103
Taxes paid	5,272	4,328

(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. The Company was formed by way of an arrangement under the Business Corporations Act of Alberta pursuant to an arrangement agreement dated January 9, 2008 between the Company and Trinidad Energy Services Income Trust (the “Trust”). The Arrangement involved the exchange, on a one-for-one basis of trust units and exchangeable shares, after accounting for the conversion factor applicable to the exchangeable shares, for common shares of Trinidad. The effective date of the Arrangement was March 10, 2008.

### Operations

Trinidad is a growth-oriented corporation that trades on the Toronto Stock Exchange (TSX) under the symbol TDG. Trinidad’s divisions operate in the drilling, well-servicing, coring and barge-drilling sectors of the North American oil and natural gas industry with operations in Canada, the United States and Mexico. Trinidad is focused on providing modern, reliable, expertly-designed equipment operated by well-trained and experienced personnel.

## 2. ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements are prepared by management, in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which requires management to make estimates and assumptions. 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.

### Previously Adopted Accounting Policies

#### Principles of consolidation

The consolidated financial statements include the accounts of Trinidad and its subsidiaries, all of which are wholly-owned at December 31, 2010. At December 31, 2009, Trinidad’s consolidated financial statements included a 10% non-controlling interest in its Chilean operations. On April 6, 2010, the Company disposed of its Chile operations (Refer to note 19). Any reference to Trinidad throughout these consolidated financial statements refers to Trinidad and its subsidiaries. All inter-company transactions have been eliminated.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with maturities, at purchase, of three months or less.

#### Inventories

Inventory consists of parts, materials and labour related to the construction, recertification and refurbishment of rigs and rig-related equipment. Inventory is valued at the lower of cost (principally on the specific identification method) or net realizable value.

#### Capital assets

Capital assets are recorded at cost less accumulated depreciation. Major renewals and improvements, which extend the future life of the asset, are capitalized, while repair and maintenance expenses are charged to operations as incurred. Disposals are removed at carrying costs less accumulated depreciation with any resulting gain or loss reflected in operations. Any costs incurred internally on the construction of rig and rig-related equipment is recorded as assets under construction. These costs will be held as deposits on capital assets or assets under construction until the related asset is ready for use, at which time it will be capitalized and subject to depreciation. Analysis of the asset’s useful lives, depreciation methods and impairment are re-examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Depreciation is based on the estimated useful lives of the assets and is as follows:

Barge drilling rigs and related equipment	9,125 drill days	Unit-of-production (10% salvage value)
Drilling rigs and related equipment	4,200 drill days	Unit-of-production (10% salvage value)
Drilling pipe and collars	1,300 drill days	Unit-of-production
Well servicing rigs	24,000 hours	Unit-of-production (20% salvage value)
Coring and surface casing rigs	15 years	Straight-line (20% salvage value)
Construction equipment	5 to 20 years	Straight-line
Buildings	25 years	Straight-line
Crew boats	15 years	Straight-line
Office furniture and other equipment	5 years	Straight-line
Automotive equipment	4 years	Straight-line (10% salvage value)

### Intangible Assets

Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Internally generated intangible assets are measured at historical cost as expenditures are made starting from the date the expenditures qualify for recognition as an intangible asset. All intangible assets are amortized over their estimated useful lives as follows:

Customer Contracts	3 years	Straight-line
Patents	10 years	Straight-line
Customer relationships	5 years	Based on usage up to a maximum of 5 years
Trade name	5 years	Straight-line
Engineering and design	5 years	Straight-line
Non-compete agreements	3 years	Straight-line

The asset's useful lives, the amortization methods and impairment are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Intangible assets are subject to impairment testing when circumstances indicate its carrying amount may not be recoverable.

### Goodwill

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 initial costs and not subject to amortization, but is tested for impairment at least annually, on December 31, and more often if circumstances indicate its carrying amount may not be recoverable. A goodwill impairment loss is recognized when the carrying amount of goodwill exceeds its fair value which is calculated on a discounted cash flow basis.

### Convertible debentures

Trinidad's convertible unsecured subordinated debentures have been classified as debt with a portion of the proceeds representing the value of the conversion option bifurcated to equity. The debt balance accretes over time to the amount owing on maturity and such increases in the debt balance are reflected as non-cash interest expense in the Consolidated Statement of Operations. Upon conversion, portions of debt and equity are transferred into shareholders' equity. (See note 8 for redemption of the convertible debentures.)

### Income tax

Trinidad follows the liability method of accounting for income tax. Under this method, income tax liabilities and assets are recognized for estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using substantively enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period that the change occurs.

### Revenue recognition

Revenue from contract drilling services is measured based on hourly or daily rates specified in purchase orders or customer contracts. Customer contracts and purchase orders do not include any post-delivery service terms. Revenue is recognized when services are performed and only when collectability is reasonably assured.

Revenue from construction operations is recognized on a percentage-of-completion basis and only when collectability is reasonably assured. Losses are provided for, in full, when first determined.

Deposits received for future drilling or construction services are recorded as deferred revenue and recognized as services are performed.

### **Stock-based compensation**

#### ***Incentive Option Plan***

On March 10, 2008, Trinidad established an Incentive Option Plan (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 vest 50% immediately and 25% on the first and second anniversary of the date of grant (unless otherwise determined by the Board of Directors at the time of issuance) and are exercisable for a period of five years from the date of grant.

Compensation expense associated with options granted under the Option Plan is deferred and recognized into earnings over the vesting period of the options granted with a corresponding increase in contributed surplus. Trinidad measures the fair value of options at the date of grant using the Black-Scholes model, amortizing the fair value over the vesting term of the option as stock-based compensation expense.

#### ***Deferred Share Unit Plan***

On March 11, 2008 the Company established a Deferred Share Unit Plan (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 Deferred Share Unit (DSU) 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. DSUs vest immediately upon grant but are not exercisable until resignation or termination from the Board of Directors.

The DSUs are paid in cash when exercised and are measured based on a mark-to-market basis when granted and subsequently at each reporting period based on the volume weighted-average trading price of a Trinidad share for the five days immediately preceding period end. DSU holders are entitled to share in dividends which are credited as additional DSUs at the dividend record date. The associated expense is recognized entirely as stock-based compensation expense with the offset to accrued liabilities.

#### ***Performance Share Unit***

On March 11, 2008, Trinidad also established a Performance Share Unit Plan (PSU Plan) to provide an opportunity for officers and employees of Trinidad and its affiliates to promote further alignment of interests between employees and the shareholders. Each Performance Share Unit (PSU) granted permits the holder to receive a cash payment equal to the fair value of the volume weighted-average share price for the five days preceding payment. The PSU's are to vest entirely no later than the third anniversary of the grant date (unless otherwise determined by the Board of Directors at the time of issuance), and must be exercised within three years from the grant date.

The PSUs are paid in cash when exercised and are measured based on a mark-to-market basis when granted and subsequently at each reporting period based on the volume weighted-average trading price of a Trinidad share for the five days immediately preceding period end. PSU holders are entitled to share in dividends which are credited as additional PSUs at the dividend record date. The associated expense is recognized over the vesting period of the PSU as stock-based compensation expense with the offset to accrued liabilities.

### **Basic and diluted per share calculations**

Basic net earnings per share is computed by dividing the net earnings by the weighted average number of shares outstanding. Diluted net earnings per share amounts are computed by dividing net earnings plus interest on any dilutive convertible debentures by the dilutive shares outstanding. Dilutive shares are arrived at by taking the weighted average number of shares outstanding and giving effect to the potential dilution that would occur if in-the-money options were exercised under the treasury stock method and the dilution, if any, that would occur upon the conversion of the convertible debentures. The treasury stock method assumes that proceeds received from the exercise of in-the-money options and any unrecognized share incentive compensation are used to repurchase shares at the average market price.

### **Foreign currency transactions**

Monetary items, including financial instruments, denominated in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses denominated in foreign currency are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in earnings.

### **Foreign currency translation**

Trinidad's United States (US), Mexico and former Chile drilling operations are considered to be self-sustaining foreign operations and are translated using the current rate method, under which all revenues and expenses are translated at the average exchange rate for the period while assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Gains or losses resulting from these translation adjustments are included in the cumulative translation adjustment account in Other Comprehensive Income (OCI).

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

### **Financial instruments and hedge accounting**

#### ***Comprehensive Income***

Gains and losses resulting from the translation of the assets and liabilities of the Company's self-sustaining foreign operations into Canadian dollars are included in the consolidated statements of comprehensive income (loss) as a separate component of OCI.

#### ***Financial Instruments - Recognition and Measurement***

All financial instruments are measured at fair value upon initial recognition of the transaction and measurement in subsequent periods is dependent on whether the instrument is classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other liabilities".

Financial instruments classified as "held-for-trading" are subsequently re-valued to fair market value with changes in the fair value being recognized into earnings; financial instruments classified as "available-for-sale" are subsequently re-valued to fair market value with changes in the fair value being recognized to OCI and financial instruments designated as "held-to-maturity", "loans and receivables", and "other liabilities" are valued at amortized cost using the effective interest method of amortization.

As a result of the adoption of the financial instrument standard, long-term debt is recognized at amortized cost, at each reporting period, net of transaction costs directly attributable to the issuance of the debt. Similarly, costs related to the issuance of Trinidad's convertible debentures or Senior Notes are netted against their carrying value and amortized into earnings over the life of the convertible debentures or Senior Notes using the effective interest rate method.

#### ***Financial Instruments - Fair Value Disclosures***

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

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

## Hedges

Trinidad utilizes derivative financial instruments to manage economic exposure to market risks relating to fluctuations in interest rates on the amount of floating rate debt outstanding. 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.

The application of hedge accounting to Trinidad's interest rate swaps has resulted in the designation of cash flow hedges whereby gains and losses resulting from changes in the fair value of the hedge are included in the consolidated statements of comprehensive income (loss), to the extent that the hedge is effective. On December 16, 2010, the Company's current cash flow hedge was no longer effective which resulted in previously recorded historic OCI gains (losses) to be transferred to current net earnings (loss) for the year ended December 31, 2010.

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

## Financial Instruments

Trinidad's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, fair value of interest rate swaps, convertible debentures, and long-term debt. The fair value of these financial assets and liabilities approximates their carrying value, unless otherwise noted. It is management's opinion that Trinidad is not exposed to significant interest or credit risks other than such risk relating to non-hedged floating rate debt.

## 3. INVENTORY

As at December 31,  
(\$ thousands)

	2010	2009
Parts and materials	12,610	14,418
Work-in-progress	12,838	5,960
Total inventory	25,448	20,378

All inventory balances are carried at the lower of cost or net realizable value. The construction operations regularly utilize inventory in the construction, modification and recertification of rigs and rig related equipment. For the year ended December 31, 2010, there were no material inventory write-downs or reversals of previously written-down amounts (2009 - no material write-downs).

Throughout the year the amount of inventories recognized as an expense were:

(\$ thousands)	2010	2009
Raw materials and consumables purchased	66,025	91,383
Labour costs	20,396	19,790
Other costs	1,440	727
Increase in inventory	(5,070)	(5,544)
Inter-segment elimination	(80,087)	(79,774)
Amount of inventories expensed in period	2,704	26,582

## 4. CAPITAL ASSETS

	2010		
As at December 31, (\$ thousands)	Cost	Accumulated Depreciation	Net Book Value
Rigs and rig-related equipment	1,513,724	390,744	1,122,980
Automotive equipment and other equipment	28,802	20,310	8,492
Construction equipment	4,112	1,864	2,248
Building	42,145	6,197	35,948
Land	15,893	-	15,893
Assets under construction	68,574	-	68,574
	1,673,250	419,115	1,254,135

2009			
As at December 31, (\$ thousands)	Cost	Accumulated Depreciation	Net Book Value
Rigs and rig-related equipment	1,480,316	302,582	1,177,734
Automotive equipment and other equipment	27,965	17,212	10,753
Construction equipment	3,676	984	2,692
Building	40,917	4,565	36,352
Land	16,091	–	16,091
Assets under construction	58,969	–	58,969
	<b>1,627,934</b>	<b>325,343</b>	<b>1,302,591</b>

Per review of the Company's capital assets in 2010, Management identified four of its rigs whose carrying value exceeded its fair value; therefore, an impairment loss of \$23.9 million on capital assets is recognized in the consolidated statement of operations in order to write the rigs down to their estimated net recoverable amounts.

## 5. INTANGIBLE ASSETS

2010			
As at December 31, (\$ thousands)	Cost	Accumulated Amortization	Net Book Value
Patents	<b>3,000</b>	<b>996</b>	<b>2,004</b>
Customer relationships	<b>820</b>	<b>820</b>	–
Trade name	<b>790</b>	<b>790</b>	–
Non-compete agreements	<b>130</b>	<b>103</b>	<b>27</b>
Engineering and design costs	<b>9</b>	<b>9</b>	–
	<b>4,749</b>	<b>2,718</b>	<b>2,031</b>

2009			
As at December 31, (\$ thousands)	Cost	Accumulated Amortization	Net Book Value
Customer contracts	30,964	30,964	–
Patents	3,000	411	2,589
Customer relationships	820	314	506
Trade name	790	216	574
Non-compete agreements	130	59	71
Engineering and design costs	75	9	66
	<b>35,779</b>	<b>31,973</b>	<b>3,806</b>

For the year ended December 31, 2010, the aggregate amortization expense for intangible assets is \$0.6 million (2009 - \$0.6 million) and is included in depreciation and amortization.

For the year ended December 31, 2010, the consolidated statement of operations includes an impairment loss on intangible assets of \$0.9 million related to a reduction in value in patents, customer relationships, and trade name. The impairment of \$0.3 million in patents is as a result of a patent no longer in use by the Company. For customer relationships and trade name, Management concluded the remaining value of customer relationships and trade name was fully impaired as it no longer had value, therefore a \$0.2 million impairment charge on customer relationships and a \$0.4 million impairment charge on trade name are included in the consolidated loss on intangible assets. The impairment loss of \$23.2 million incurred in the year ended December 31, 2009 is related to the Bareboat Charters in the Company's US and International segment. The intangible asset was recognized in connection with the acquisition of Axxis on July 5, 2007. The original value of \$39.6 million was related to the US\$12.5 million annual payments to the former owners of Axxis in relation to the Bareboat Charters. The intangible asset was originally amortized over the period of the payment term, ending July 2010. Management concluded the remaining value of \$23.2 million was fully impaired based on the outlook for the barge drilling market and its adverse effect on the Bareboat Charters up until July 2010. The entire impairment amounts have been recognized as an impairment of intangible assets in the consolidated statement of operations.

## 6. GOODWILL

In 2010, during Trinidad's review of goodwill impairment, the Company concluded that decreasing activity within the Construction operations, and decided to narrow their focus on the Company's rig construction to internal rig building. With this change in future operations, the carrying value of the goodwill in the Company's Construction segment exceeded its fair value. As a result, Trinidad recorded an impairment charge on the entire amount of goodwill of the Construction operations for \$58.5 million in the consolidated statement of operations. Management determined fair value by using industry standard valuation methods, such as discounted cash flows. The annual impairment review on all other goodwill balances concluded there were no other divisions whose carrying value of goodwill exceeded their fair value. There was no impairment identified during the 2009 annual impairment test on goodwill balances.

The changes in goodwill during the year are as follows:

As at December 31,  
(\$ thousands)

	2010	2009
Balance, beginning of year	147,962	162,173
Impairment of goodwill	(58,522)	–
Adjustments due to foreign exchange	(4,799)	(14,211)
Balance, end of year	84,641	147,962

## 7. LONG-TERM DEBT

As at December 31,  
(\$ thousands)

	2010	2009
US\$ 450,000 senior unsecured notes, due January 2019 bearing interest at 7.875%, payable semi-annually <sup>(a)</sup>	432,560	–
Credit facility, net of transaction costs <sup>(b,c,d)</sup>	167,204	209,856
Building and other equipment loans <sup>(e,f)</sup>	6,936	7,478
Deferred purchase obligation <sup>(g)</sup>	–	13,085
	606,700	230,419
Less: current portion of long-term debt	(546)	(14,146)
	606,154	216,273

a) On December 16, 2010, Trinidad issued US\$450.0 million in 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. 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, with \$0.1 million in accretion expense incurred in 2010 (2009 – nil). Financing charges of \$11.7 million are being amortized over the life of the Senior Notes using the effective interest rate method, with \$0.1 million in financing charges incurred in 2010 (2009 – nil).

b) Effective December 16, 2010, Trinidad terminated its existing credit facility, consisting of a Canadian dollar revolving facility of \$150.0 million, a US based revolving facility of US\$100.0 million, a Canadian dollar term facility of \$100.0 million and a US based term facility of US\$125.0 million, and entered into a new senior secured revolving facility which includes \$200.0 million in Canadian dollars and \$100.0 million in US dollars. The new facility require quarterly interest payments and are based on LIBOR and Bankers Acceptance (BA) rates and incorporate a tiered interest rate, which varies depending on the results of the Consolidated Total Debt to Consolidated EBITDA (Earnings before charges of interest, taxes, and gains/losses, impairments and depreciation and amortization on assets) ratio. This facility matures December 16, 2014, and is subject to annual extensions of an additional year on each anniversary date of the closing date upon the consent of the lenders holding two-thirds of the aggregate commitments under the credit facility. This facility represents a combined Canadian dollar equivalent debt capacity of approximately \$299.5 million. The members of the syndicated groups include major Canadian, United States and international financial institutions. This debt is secured by a general guarantee over the assets of Trinidad and its subsidiaries.

The effective interest rate on this facility was 6.45% for the 15 day period ended December 31, 2010.

As a result of the extinguishment of the former credit facility, Trinidad recognized an expense of approximately \$4.9 million of previous deferred financing charges; offsetting this is the capitalization of \$2.5 million in deferred financing charges incurred on the new credit facility. These new charges will be amortized over the life of the debt, using the effective interest rate method.

c) Prior to December 16, 2010, Trinidad amended its credit facility on April 6, 2010 which included a Canadian dollar revolving facility of \$150.0 million and a US based revolving facility of US\$100.0 million. Additionally, the maturity dates of all revolving and term debt facility were extended until April 1, 2012. As part of the amendment of the credit facility, the new agreement included three financial ratio covenants that Trinidad is required to operate within. The cost to Trinidad of this amendment was \$6.6 million, which was included in the debt financing costs and was amortized over the life of the amended agreement until December 16, 2010 when all costs were

fully expensed (see note (b) above). The effective interest rate used on this facility was 10.23% for the 350 day period ended December 16, 2010. The effective interest rate, including the penalties for early extinguishment for the 350 day period ended December 16, 2010 was 13.23%.

- d) At December 31, 2009, Trinidad's syndicated loan facility was comprised of a \$225.0 million Canadian Revolving Credit Facility and a \$100.0 million Canadian five-year term facility. The Canadian Revolving Credit Facility required monthly interest payments and was renewable annually subject to the mutual consent of the lenders and Trinidad. To the extent that the facility was not renewed, the drawn-down principal would be due 364 days later. The Canadian term loan required monthly interest payments based on a spread over the one, two or three-month BA rates and required repayment based on 1% annual amortization and a balloon payment at its maturity date of May 1, 2011.

Concurrently, a US subsidiary of the Company entered into a US\$125.0 million five-year term facility to fund the US operations. This facility required monthly interest payments based on a spread over the one, two or three-month LIBOR rates and required repayment based on 1% annual amortization and a balloon payment at its maturity date of May 1, 2011.

The effective interest rate on this facility was 6.6% for the year ended December 31, 2009.

- e) On December 15, 2010, Trinidad entered into a \$6.9 million mortgage with Canadian Western Bank on properties held by the Company. The facility requires monthly interest payments at a rate of 3.95% per annum, matures January 2014 and is secured by the respective properties.

Other equipment loans are payable over various periods, between nine and seventeen months, at interest rates varying from 0% to 1.5% per annum, and are secured by the related assets.

- f) On December 15, 2005, Trinidad entered into a \$9.1 million mortgage with GE Canada on properties held by the Company. The facility requires monthly principal and interest payments at a rate of 6.26% per annum, matures January 2011 and is secured by the respective properties.
- g) In connection with the acquisition of the assets of Axxis on July 5, 2007, Trinidad committed to pay US\$12.5 million annually to the former shareholders of Axxis for the three years subsequent to acquisition pertaining to provisions under the Bareboat Charters, discussed further in note 16. The consideration was paid annually and was contingent on the continued operation of the three barge rigs currently under contract. As at July 5, 2010, Trinidad made three payments of US\$12.5 million annually and no further obligation remains at December 31, 2010.

## 8. CONVERTIBLE DEBENTURES

For the year ended December 31,

(\$ thousands)	2010	2009
Convertible debentures – opening balance <sup>(a)</sup>	331,249	323,381
Accretion of discount <sup>(a)</sup>	5,837	5,296
Effective interest on transaction costs <sup>(a)</sup>	2,686	2,664
Conversion of convertible debentures	–	(92)
Redemption charges <sup>(1)(b)</sup>	14,370	–
Redemption of convertible debentures	(354,142)	–
Convertible debentures – ending balance	–	331,249

- (1) Redemption charges are made up of \$10.1 million of accretion and \$4.3 million in unamortized deferred financing charges.

- a) On July 5, 2007, Trinidad issued \$354.3 million in convertible unsecured subordinated debentures. The debentures were convertible into shares of the Company at the option of the holder at any time prior to maturity at a conversion price of \$19.30, had a face value of \$1,000, coupon rate of 7.75% and were to mature July 31, 2012; with interest being paid semi-annually on June 30 and December 31. Trinidad had the option to redeem the debentures in whole or in part at a redemption price of \$1,000. Upon redemption or maturity, the Company could elect to satisfy its obligation to repay the principal by issuing shares. See note (b) below on early extinguishment of the debentures on January 19, 2011.

Upon issuance of the debentures in 2007, the value of the conversion feature was determined using the Black-Scholes fair value model to be \$28.2 million and has been recorded as equity with the remaining \$326.1 million allocated to long-term debt, net of \$13.6 million in transaction costs. The discount on the debentures was being accreted such that the liability at maturity would equal the face value of \$354.3 million. As the debentures were extinguished, the Company has fully accreted the amounts to face value at December 31, 2010. See note (b) below.

Interest on convertible debentures of \$51.6 million (2009 - \$35.4 million) includes coupon payments of \$27.4 million (2009 - \$27.4 million), \$5.8 million (2009 - \$5.3 million) pertaining to the accretion of the convertible debenture and \$2.7 million (2009 - \$2.7 million) pertaining to the effective interest on financing costs for the year ended December 31, 2010. Please see note (b) below for details of the additional costs incurred during the year ended December 31, 2010.

- b) On December 16, 2010, the Company gave notice for early redemption of its outstanding convertible unsecured subordinated debentures for the total outstanding value of \$354.1 million originally due in 2012. The notice of redemption was required 30 days prior to redemption; therefore, the redemption date occurred on January 19, 2011. During this 30 day period, no conversion to shares occurred. A redemption price of \$1,004.03 per debenture was awarded consisting of \$1,000 principal and accrued and unpaid interest. Proceeds of \$355.6 million from the Senior Notes (see note 7 above) were applied to pay the redemption. On December 20, 2010, these funds which included \$354.1 million of principal in addition to \$1.5 million of accrued interest for the period up to January 19, 2011 period, were put in trust with the Company's debenture trustee until payment on January 19, 2011.

In accordance with CICA handbook section 3855.45-49, Trinidad has met the requirements for a financial liability to be derecognized and extinguished from its consolidated balance sheet as at December 31, 2010. Per the debenture's Indenture agreement, Trinidad has been legally released of this liability due to the following indenture requirements performed by the Company and trustee. The requirements include the funds paid to the trustee and held in trust and were beyond the control of Trinidad, the officers' certificate delivered to the trustee, the trustee has provided a release and discharge of the indenture and the trustee has mailed redemption notices to the debenture holders.

As the debenture met the extinguishment requirements prior to the year ended December 31, 2010, Trinidad consolidated statement of operations includes interest on convertible debentures the remaining unamortized accreted amount of \$10.1 million. Also included in this interest expense is the remaining unamortized deferred financing costs related to the debentures of \$4.3 million. The equity portion of \$28.2 million (see note (a) above) was transferred to contributed surplus, as the value of the conversion option was deemed to be nil upon redemption.

## 9. INCOME TAXES

For the years ended December 31,

(\$ thousands except percentages)

	2010	2009
Net earnings (loss) before income tax	(75,818)	(12,713)
Corporate tax rate	28.38%	29.61%
Tax expense at statutory rate	(21,517)	(3,764)
	-	-
Non-deductible expenses	4,889	2,914
Statutory and other rate differences	(1,136)	(342)
Effect of change in timing of expected tax rates	2,879	3,881
Goodwill impairment	16,470	-
Mexican flat taxes	-	107
Return to provision adjustment	(3,681)	6,566
Other	8,411	250
Total tax expense	6,315	9,612

Trinidad's income is subject to Canadian federal and provincial taxes, US federal and state taxes, and international federal taxes. For 2010, a \$1.6 million (2009 - \$1.6 million) recovery relates to the Company's Canadian entities resulting from operations in Alberta, British Columbia and Saskatchewan, a \$0.5 million recovery (2009 - \$3.6 million expense) pertains to operations in Mexico, and a \$2.4 million (2009 - \$0.4 million) expense relates to other international subsidiaries. The remaining tax expense of \$6.0 million (2009 - \$7.2 million) relates to the Company's US operations, and is a blended rate involving the federal rate, and a pro-rata of the following states: Colorado, Kansas, Texas, Louisiana, New Mexico and Oklahoma.

The liability and asset for future income taxes on Trinidad's balance sheet is comprised of the following temporary differences:

As at December 31,

(\$ thousands)

	2010	2009
Loss carry-forward	-	-
Deferred costs	-	-
Current future tax asset	-	-
Loss carry-forward	185,320	149,464
Capital and other long-lived assets	(268,331)	(237,833)
Interest rate swap	(666)	3,827
Financing costs	1,675	2,876
Other	(986)	-
Long-term future tax liability	(82,988)	(81,666)

Loss carry-forwards of \$540.8 million (2009 - \$432.7 million) have been recognized for income tax purposes. They represent losses mainly located in Canada and the US and are due to expire between 2019 and 2030.

## 10. SHAREHOLDERS' EQUITY AND CONTRIBUTED SURPLUS

### a) Common Shares

#### Authorized

Unlimited number of common shares, voting, participating

For the years ended December 31,

(\$ thousands except share data)

	2010		2009	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Common shares – opening balance	120,840,962	951,863	95,227,381	828,882
Shares issued for cash, net of transaction costs and future tax	–	–	27,184,500	137,309
Shares issued on conversion of convertible debentures	–	–	5,181	99
Shares repurchased and cancelled under NCIB	–	–	(1,576,100)	(14,427)
Common Shares – closing balance	120,840,962	951,863	120,840,962	951,863

On June 25, 2009, Trinidad closed a bought deal equity financing whereby 27,184,500 shares were issued for gross proceeds of \$140.0 million. \$133.8 million in net proceeds were received net of \$6.2 million in total transaction costs, which were offset by a \$3.5 million future income tax asset. This equity financing was primarily applied to reduce outstanding principal on the revolving and the term facility.

On September 2, 2008, Trinidad announced its intent to acquire for cancellation up to ten percent (9,373,221 common shares) of the Company's public float, by way of Normal Course Issuer Bid (NCIB), that extended to the earlier of September 3, 2009 or the date upon which the Company acquired the ten percent. During 2009, Trinidad repurchased 1,576,100 shares at an average cost of \$3.87 per share (\$14.4 million of book value) by way of the NCIB. Partly offsetting this was a conversion of convertible debentures during the year of 5,181 shares (\$0.1 million of book value). At December 31, 2009, under this NCIB plan, Trinidad has acquired and cancelled a total of 2,763,500 shares at a cost of \$12.0 million, at an average cost of \$4.34 per share. The NCIB was terminated on September 4, 2009 as per the expiry timeline. The excess of the purchase price over the carrying amount of the common shares acquired and cancelled is recorded against retained earnings. However, if the purchase price was lower than the carrying amount of the common shares acquired and cancelled it is recorded as contributed surplus.

### b) Contributed Surplus

For the years ended December 31,

(\$ thousands)

	2010	2009
Contributed surplus – opening balance	27,832	19,043
Stock-based compensation expense	349	482
Redemption of convertible debentures	28,207	–
Effect of NCIB	–	8,307
Contributed surplus – ending balance	56,388	27,832

## 11. LONG TERM INCENTIVE PLANS

### Option Plan

The following summarizes the outstanding options as at December 31, 2010 and 2009 and the changes during these periods:

For the years ended December 31,

2010

2009

	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Outstanding – beginning of year	6,033,949	13.68	8,259,495	12.66
Granted during the period	25,000	7.58	46,038	6.87
Expired during the period	(2,112,280)	12.30	(2,253,886)	9.68
Forfeited during the period	(4,497)	11.95	(17,698)	11.95
Outstanding – end of year	3,942,172	14.39	6,033,949	13.68

The range of exercise prices for the options outstanding at December 31, 2010 is as follows:

Range of Exercise Prices	Total Options Outstanding		Exercisable Options	
	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
\$6.87 – \$9.50	71,038	7.12	47,029	7.06
\$9.51 - \$12.00	680,485	11.95	680,488	11.95
\$12.01 - \$14.00	1,310,096	12.62	1,310,096	12.62
\$14.01 - \$16.83	1,880,553	16.79	1,880,553	16.79
\$9.51 - \$16.83	3,942,172	14.39	3,918,166	14.44

Trinidad uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. The per-share weighted average fair value of options granted during the year ended December 31, 2010 was \$2.91 (2009 - \$2.59). For the year ended December 31, 2010, Trinidad recognized compensation expense included in the calculation of net earnings of \$0.3 million (2009 - \$0.5 million) using the following weighted average assumptions:

For the years ended December 31,

2010

2009

Expected volatility	64.3%	64.4%
Annual dividend yield	2.6%	2.9%
Risk-free interest rate	1.8%	1.9%
Expected life (years)	3.0	3.0

The options will have an exercise price equal to the closing trading price for the common shares on the TSX on the date immediately preceding the date of grant.

### DSU Plan

The following summarizes the outstanding DSUs as at December 31, 2010 and 2009 and the changes during the periods:

For the years ended December 31,	2010	2009
Outstanding – opening balance	127,385	41,717
Granted during the period	53,190	93,750
Granted through dividend payment	6,046	5,972
Exercised during the period	(14,430)	(14,054)
Outstanding – ending balance	172,191	127,385

As at December 31, 2010, there were 172,191 (2009 - 127,385) DSUs outstanding, with a mark-to-market liability of \$1.1 million (2009 - \$0.9 million), which is included in accounts payable and accrued liabilities. During the year ended December 31, 2010, 14,430 DSUs were exercised (2009 - 14,053). The expense related to the DSUs is recognized in stock-based compensation in the consolidated statement of operations.

### PSU Plan

The following summarizes the outstanding PSUs as at December 31, 2010 and 2009 and the changes during the periods:

For the years ended December 31,	2010	2009
Outstanding – opening balance	626,846	255,690
Granted during the period	798,478	600,000
Granted through dividend payment	45,707	36,406
Exercised during the period	(429,093)	(265,250)
Forfeited during the period	(29,809)	–
Outstanding – ending balance	1,012,129	626,846

As at December 31, 2010, there were 1,012,129 (2009 - 626,846) PSUs outstanding, with a mark-to-market liability of \$3.0 million (2009 - \$2.0 million), which is included in accounts payable and accrued liabilities. Of the 1,012,129 units, 467,364 vest on December 1, 2011, 281,431 vest on December 1, 2012 and the remaining 263,334 will vest on December 1, 2013. During the year ended December 31, 2010, 429,093 PSUs were exercised (2009 - 265,250). The expense related to the PSUs is recognized in stock-based compensation in the consolidated statement of operations.

## 12. CAPITAL MANAGEMENT

Trinidad's capital is comprised of debt, convertible debentures 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:

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

	2010	2009
Long-term debt <sup>(1)</sup>	176,666	219,347
Senior Notes <sup>(1)</sup>	444,220	–
Convertible debentures <sup>(1)(2)</sup>	–	338,233
Total debt	620,886	557,580
Shareholders' equity	778,476	911,621
Less: cash and cash equivalents	(7,905)	(4,198)
Total capitalization	1,391,457	1,465,003

(1) Balance outstanding without consideration of transaction costs.

(2) Refer to note 8 for early redemption of convertible debentures on December 16, 2010.

Management is focused on several objectives while managing the capital structure of the Company. Specifically:

- a) Ensuring Trinidad has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions and fleet construction programs that add value for our shareholders;
- b) Maintaining a strong capital base to ensure that investor, creditor and market confidence is secured;
- c) Maintaining balance sheet strength, ensuring Trinidad's strategic objectives are met, while retaining an appropriate amount of leverage;
- d) Providing shareholder return through dividends to ensure that income-oriented investors are provided a cash yield; and
- e) Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders.

Trinidad manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and Trinidad's planned capital requirements, within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on existing debt facility, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt or equity when required.

The Company's syndicated loan facility is subject to four covenants, which are reported to the bank on a quarterly basis. These covenants are used by management to monitor capital, with increased focus on the Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio, which is a non-GAAP measure. This ratio is calculated as the consolidated senior debt balance, divided by consolidated net earnings (loss), adjusted by interest on the long-term debt, depreciation and amortization, income taxes, gain/loss on sale of assets, unrealized foreign exchange and any other non-cash expenditure or loss for the rolling four quarters, and must be maintained below 3.00:1. For the rolling four quarters ended December 31, 2010, this ratio was 0.96:1 (December 31, 2009 - 1.40:1).

Trinidad remains in compliance with all of the banking syndicate's financial covenants.

### 13. FINANCIAL INSTRUMENTS

#### Carrying Value and Fair Value Disclosures on Financial Instruments

Trinidad's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, interest rate swaps, long-term debt, and the convertible debentures. The carrying amounts of these financial instruments, reported on the Company's consolidated balance sheets, approximates their fair values due to their short-term nature, with the exception of the long-term debt and the convertible debenture as follows:

As at December 31,	2010		2009	
(\$ thousands)	Fair Value	Carrying Value	Fair Value	Carrying Value
Held for trading:				
Cash and cash equivalents	7,905	7,905	4,198	4,198
Loans and receivables:				
Accounts receivable	159,866	159,866	139,418	139,418
Other liabilities				
Accounts payable and accrued liabilities	62,291	62,291	51,055	51,055
Interest rate swaps	1,991	1,991	7,659	7,659
Credit facility <sup>(1)</sup>				
Canadian Revolving Credit Facility <sup>(2)</sup>	120,000	120,000	55,000	55,000
US Revolving Credit Facility <sup>(2)</sup>	49,730	49,730	–	–
Canadian Term Facility <sup>(2)</sup>	–	–	65,624	67,798
US Term Facility <sup>(2)</sup>	–	–	86,213	89,070
Senior Notes <sup>(1)(2)</sup>	456,521	444,220	–	–
Convertible debentures <sup>(1)(3)</sup>	–	–	357,684	366,441
Other debt	6,936	6,936	7,663	7,478

(1) The credit facility, Senior Notes and convertible debentures are recorded at their gross amounts and do not include transaction costs incurred on their issuance and the convertible debentures carrying value includes both the debt and equity components.

(2) Refer to note 7 for further detail on the Senior Notes issued on December 16, 2010 and changes in the credit facility on December 16, 2010.

(3) Refer to note 8 for the early redemption of convertible debentures on December 16, 2010.

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 and accounts payable and accrued liabilities** – The carrying amounts approximate fair value because of the short maturity of these instruments.
- **Interest rate swaps** – The fair value of the interest rate swaps is based on the quoted market prices at the date of valuation, and is a level 2 in the fair value hierarchy.
- **Long-term debt** – The fair value of the various pieces of long-term debt are based on values quoted from 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.
- **Convertible debentures** – The fair value is based on the closing market price on the date of valuation, and is therefore a level 1 in the fair value hierarchy.

## Interest Rate Swaps

Trinidad previously entered into two cash flow hedges using interest rate swap arrangements to hedge the floating interest rate on 71.0% of the outstanding balance of the US and Canadian term debt facility. These contracts have been recorded at their fair value on the Company's consolidated financial statements. During the year ended December 31, 2010, Trinidad recorded a gain of \$3.4 million (2009 - \$2.3 million loss) in OCI, net of \$2.2 million in taxes (2009 - \$2.0 million), due to the change in fair value of the cash flow hedge. The hedge was terminated on December 16, 2010, upon extinguishment of the former credit facility. As a result, the net OCI balance of \$0.6 million was eliminated and the offsetting expense went to effective interest on long-term debt. From December 17, 2010 and going forward until the termination of the interest rate swaps, the gain or loss incurred on the change in the fair value of the swaps will be included in the income statement as effective interest on long-term debt. Trinidad reported a \$0.3 million gain for the remaining December period.

## Financing Costs

The carrying value of the long-term debt, senior notes and convertible debentures is recorded net of debt issuance costs. Under the effective interest rate method Trinidad recorded interest expense of \$3.8 million for the year ended December 31, 2010 (2009 - \$3.2 million) relating to costs under the debt facility. Upon termination of the former credit facility on December 16, 2010, the deferred financing costs of \$4.9 million on the balance sheet, pertaining to prior renegotiations were written off and included in interest on long-term debt on the consolidated statements of operations for the year ended December 31, 2010. With respect to the Senior Notes, Trinidad recognized interest expense of \$0.1 million, for the year ended December 31, 2010, using the effective interest rate. In addition, Trinidad also recognized interest expense of \$2.7 million (2009 - \$2.7 million) relating to costs associated with the convertible debentures for the same period using the effective interest method. Furthermore, upon their termination, \$4.3 million in remaining deferred financing costs were expensed and included in interest on convertible debentures for the year ended December 31, 2010.

## 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, currency risk, interest rate risk and liquidity risk.

### 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. In the instance that 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 has been established.

The following is a reconciliation of the change in the reserve balance:

As at December 31,  
(\$ thousands)

	2010	2009
Opening reserve allowance	3,209	4,849
Increase in reserve recorded in the statement of operations in the current period	92	3,055
Working capital adjustments relating to acquisitions	-	(2,187)
Write-offs charge against the reserve	(3,160)	(406)
Recoveries of amounts previously written-off	(87)	(2,102)
Ending reserve allowance	54	3,209

As at December 31, 2010, Trinidad had accounts receivable of \$10.0 million (2009 - \$8.3 million) that were greater than 90 days for which no provision had been established, as the Company believes that these amounts will be collected.

## Currency Risk

Trinidad's operations are affected by fluctuations in currency exchange rates due to the Company's expansion into the US and international marketplace and reliance on US and international suppliers to deliver components used by its manufacturing subsidiaries. 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, 2010, the Company had in place a net investment hedge on the self-sustaining entities.

As at December 31, 2010, 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 are subject to foreign translation adjustments upon consolidation. Based on these, US dollar financial instrument closing balances, net earnings (loss) for the year ended December 31, 2010, would have fluctuated by approximately \$0.3 million (2009 - \$0.1 million), and OCI would have fluctuated by \$4.6 million (2009 - \$5.1 million) for the year ended December 31, 2010, for every \$0.01 variation in the value of the US/Canadian exchange rate.

## Interest Rate Risk

Trinidad is subject to risk exposure related to changes in interest rates on borrowings under the credit facility which is subject to floating interest rates. As at December 31, 2010, Trinidad had \$169.7 million outstanding under the credit facility. A change of one percent in the interest rates would cause a \$2.5 million (2009 - \$1.5 million) change in the interest expense for the year ended December 31, 2010.

## 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, 2010

(\$ thousands)	2011	2012	2013	2014	2015	Thereafter
Accounts payable and accrued liabilities	62,291	–	–	–	–	–
Interest rate swaps	1,991	–	–	–	–	–
Canadian revolving debt	–	–	–	120,000	–	–
US revolving debt	–	–	–	49,730	–	–
Other debt	584	598	617	5,136	–	–
Senior Notes <sup>(1)</sup>	–	–	–	–	–	447,570
Interest payments on contractual obligations	42,666	42,631	42,607	42,411	35,246	106,313
Total	107,532	43,229	43,224	217,277	35,246	553,883

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

## 14. COMMITMENTS AND CONTINGENCIES

Trinidad has several operating lease agreements on buildings and equipment. The future lease obligations for the next five years are summarized below:

(\$ thousands)

2011	2,381
2012	2,409
2013	2,283
2014	4,612
2015	1,615
Thereafter	289

### Rig Construction

Trinidad's former rig construction program has two remaining rigs left to complete and deliver. Expected capital costs to complete these rigs total approximately \$3.8 million. These rigs are expected to be delivered in the first quarter of 2011 and will be under long-term, take-or-pay contracts. Outside this program, Trinidad has one additional rig that is contracted to be delivered in the latter half of 2011.

### 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 financial statements.

## 15. SEGMENTED INFORMATION

Since Trinidad announced its intention to expand operations into the US marketplace in 2005, its operations have been diversified from its primary geographical focus in western Canada to include various locations in the US, such that a significant proportion of Trinidad's operations now occur in the US marketplace. The acquisitions of Cheyenne Drilling and Axxis Drilling, as well as Trinidad's rig construction programs have provided additional rigs of varying depths and capabilities for the US operations, which complemented the drilling fleet operating in the Canadian market and expanded Trinidad's overall drilling operations. Despite the similarities in the identified assets, the increased management depth in the US and the varying conditions between the Canadian and US markets have resulted in management evaluating Trinidad's drilling performance on a geographically segmented basis. Trinidad's operations in Mexico have been combined with the US operations as this operation does not meet the requirement for disclosure as a separate segment.

The acquisition of Mastco Derrick Service Ltd in 2006 and Victory in 2008 further broadened the operations of Trinidad to include the capability to design, manufacture, sell and refurbish drilling rigs and related equipment. The unique characteristics of this subsidiary, which are different from Trinidad's core drilling operations, have resulted in management's separate evaluation of its results. Transactions between the segments are recorded at cost and have been eliminated upon consolidation.

For the year ended December 31, 2010 (\$ thousands)	Canadian Drilling Operations	United States/ International Drilling Operations	Construction Operations	Inter-segment Eliminations	Total
Revenue	284,254	357,352	85,139	(80,087)	646,658
Operating expense	181,949	209,910	82,791	(80,087)	394,563
	102,305	147,442	2,348	–	252,095
Interest on long-term debt	15,961	13,553	22	–	29,536
Interest on convertible debentures	51,629	–	–	–	51,629
Depreciation and amortization	33,401	66,171	2,216	–	101,788
Loss on sale of assets	–	(3,380)	65	–	(3,315)
Impairment of capital assets	–	23,853	–	–	23,853
Impairment of intangible assets	–	–	912	–	912
Impairment of goodwill	–	–	58,522	–	58,522
Income before corporate items	1,314	47,245	(59,389)	–	(10,830)
General and administrative					53,949
Stock-based compensation					3,971
Foreign exchange loss					7,068
Income taxes					6,315
Net earnings (loss)					(82,133)
Capital expenditures	29,721	108,678	1,241	–	139,640
Capital assets	418,674	817,978	17,483	–	1,254,135
Goodwill	–	84,641	–	–	84,641
Net future income tax liability	(7,104)	(74,242)	(1,642)	–	(82,988)
For the year ended December 31, 2009 (\$ thousands)	Canadian Drilling Operations	United States/ International Drilling Operations	Construction Operations	Inter-segment Eliminations	Total
Revenue	196,505	350,454	115,406	(79,774)	582,591
Operating expense	120,322	188,945	106,356	(79,774)	335,849
	76,183	161,509	9,050	–	246,742
Interest on long-term debt	12,135	8,968	60	–	21,163
Interest on convertible debentures	35,406	–	–	–	35,406
Depreciation and amortization	27,282	57,718	2,032	–	87,032
Loss on sale of assets	246	10,294	4	–	10,544
Impairment of intangible assets	–	23,189	–	–	23,189
Income before corporate items	1,114	61,340	6,954	–	69,408
General and administrative					53,117
Stock-based compensation					4,366
Foreign exchange loss					24,638
Income taxes					9,612
Non-controlling interest					114
Net earnings (loss)					(22,439)
Capital expenditures (including acquisitions)	10,950	150,653	960	–	162,563
Capital assets	409,964	874,673	17,954	–	1,302,591
Goodwill	–	89,441	58,521	–	147,962
Net future income tax liability	(8,831)	(70,729)	(2,106)	–	(81,666)

## 16. SIGNIFICANT CUSTOMERS

At December 31, 2010, Trinidad had long-term, take-or-pay contracts in place with multiple significant oil and natural gas producing companies. Trinidad has two customers that provided in excess of 10% of Trinidad's 2010 revenue (2009 - two customers). One customer provided 20.0% (2009 - 12.0%) and the second provided 15.0% (2009 -15.0%).

## 17. RELATED PARTY TRANSACTIONS

All related party transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Trinidad engages the law firm of Blake, Cassels & Graydon LLP to provide legal advice. One partner of this law firm holds a board position with Trinidad, and another partner is an officer of the Company. Trinidad incurred legal fees of \$0.8 million (2009 - \$2.3 million) to Blake, Cassels & Graydon LLP. As of December 31, 2010, \$0.2 million (2009 - \$nil) was due to Blake, Cassels & Graydon LLP.

During the second quarter of 2010, Trinidad sold equipment valued at \$0.2 million to an executive of one of Trinidad's companies. This was representative of an arm's length transaction as the equipment was appraised by an independent party and sold at the appraised value.

During the first quarter of 2009, Trinidad purchased a parcel of land from 1010460 Alberta Ltd., a company owned by an executive officer within Trinidad's Canadian operations. The land purchase of \$1.6 million, as well as all of the purchase agreement's conditions, was representative of an unrelated party transaction. This property currently houses a facility used in the coring and surface casing division of the Canadian drilling operations.

## 18. FOREIGN CURRENCY TRANSLATION

As at December 31,  
(\$ thousands)

	2010	2009
Unrealized losses on translating financial statements of self-sustaining foreign operations excluding intercompany balances	(36,739)	(112,260)
Unrealized gains on foreign currency translation adjustments on intercompany balances	5,677	15,384
Total foreign currency translation adjustment	(31,062)	(96,876)

## 19. SALE OF CHILEAN OPERATIONS

On April 6, 2010, the Company disposed of its drilling rig located in Chile and all of its shares in TDL Chile S.A., a wholly owned subsidiary, for cash consideration of US\$28.0 million (CDN\$29.9 million). The resulting contract termination fees and gain on disposal of assets are presented within the Oilfield services revenue and Gain on disposal or sale of assets, respectively, in the consolidated statements of operations and retained earnings (deficit). The rig and rig-related equipment and the Chilean subsidiary had previously been reported within the United States/ International drilling operations segment.

The carrying values of the significant assets and liabilities disposed are as follows:

As at April 6, 2010  
(\$ thousands)

TDL Chile S.A. - working capital	(39)
Rig and rig-related equipment	20,444
Contract termination fees receivable	5,201
Settlement of related party receivables	1,779
Non-controlling interest	(1,331)
Foreign currency translation	67
Gain on disposal of rig and rig-related equipment and subsidiary	3,780
Total disposal proceeds in Canadian dollars	29,901
Total disposal proceeds in US dollars	28,000

Amounts are included in the following sections of the consolidated statement of cash flows:

Per Consolidated statements of cash flows:

(\$ thousands)

Cash provided by operating activities – net earnings (loss)	5,201
Cash provided by investing activities – proceeds from dispositions in capital assets	24,700
	29,901

## 20. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current year's presentation. Such reclassification did not impact previously reported net earnings or retained earnings (deficit).

## 21. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES DIFFERENCES

(Amounts expressed in \$ thousands, CAD, except per share amounts)

The above mentioned consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) which conforms to generally accepted accounting principles in the United States of America ( US GAAP) in all material respects, except for the material differences between Canadian GAAP and US GAAP relating to measurement and recognition as explained below, along with their effect on the Company's consolidated financial statements. The adjustments below are measurement differences only and do not reflect any disclosure differences that may exist between Canadian GAAP and US GAAP. This reconciliation was prepared in accordance with Item 17 of Form 20-F.

The application of US GAAP would have the following effects on net earnings (loss) as reported:

For the years ended December 31,  
(\$ thousands except share and per share data)

	Notes	2010	2009	2008
Net earnings (loss) as reported in the consolidated statement of operations – Canadian GAAP		<b>(82,133)</b>	(22,439)	82,174
Adjustments				
Capitalized interest	(a)	<b>4,646</b>	3,084	3,376
Interest expense on convertible debentures	(b)	<b>15,909</b>	5,296	4,836
Stock-based compensation	(c)	-	-	895
Stock-based compensation – forfeitures	(d)	<b>79</b>	87	34
Capitalized interest – depreciation	(a)	<b>(1,182)</b>	(1,008)	(960)
Loss on sale of rigs	(a)	<b>(459)</b>	-	(1,555)
Income tax impact of the above differences	(e)	<b>(5,390)</b>	(2,209)	(2,000)
		<b>13,603</b>	5,250	4,626
Net earnings (loss) – US GAAP		<b>(68,530)</b>	(17,189)	86,800
Net earnings (loss) per share – US GAAP				
Basic		<b>(0.57)</b>	(0.16)	0.96
Diluted		<b>(0.57)</b>	(0.16)	0.95

The application of US GAAP would have the following effects on the consolidated balance sheets as reported:

As at December 31,

	Notes	2010		2009	
(\$ thousands)		As Reported	US GAAP	As Reported	US GAAP
Current assets		<b>197,786</b>	<b>196,393</b>	169,654	169,654
Capital assets	(a)	<b>1,254,135</b>	<b>1,274,935</b>	1,302,591	1,318,993
Deferred charges	(f)	-	<b>14,186</b>	-	8,997
Intangible assets		<b>2,031</b>	<b>2,031</b>	3,806	3,806
Goodwill		<b>84,641</b>	<b>84,641</b>	147,962	147,962
Total assets		<b>1,538,593</b>	<b>1,572,186</b>	1,624,013	1,649,412
Current liabilities	(f)	<b>70,975</b>	<b>71,013</b>	78,981	80,725
Deferred revenue		-	-	-	-
Long-term debt	(f)	<b>606,154</b>	<b>620,301</b>	216,273	216,541
Convertible debentures	(b),(f)	-	-	331,249	354,142
Fair value of interest rate swaps		-	-	1,886	1,886
Future (deferred) income taxes	(e)	<b>82,988</b>	<b>100,128</b>	81,666	93,416
Total liabilities		<b>760,117</b>	<b>791,442</b>	710,055	746,710
Common shares	(g)	<b>951,863</b>	<b>1,118,142</b>	951,863	1,118,142
Convertible debentures	(b)	-	-	28,207	-
Contributed surplus	(c)	<b>56,388</b>	<b>12,073</b>	27,832	8,102
Accumulated other comprehensive income (loss)		<b>(80,646)</b>	<b>(80,646)</b>	(53,453)	(53,453)
Retained earnings (deficit)		<b>(149,129)</b>	<b>(268,825)</b>	(42,828)	(172,426)
Equity attributable to shareholders		<b>778,476</b>	<b>780,744</b>	911,621	900,365
Non-controlling interest		-	-	2,337	2,337
		<b>778,476</b>	<b>780,744</b>	913,958	902,702
		<b>1,538,593</b>	<b>1,572,186</b>	1,624,013	1,649,412

#### a) Capitalized interest

US GAAP requires interest costs to be capitalized as a component of the historical cost of constructed assets that meet the criteria of a qualifying asset. Canadian GAAP permits, but does not require interest costs to be capitalized; therefore Trinidad does not capitalize any borrowing costs under Canadian GAAP.

On a US GAAP basis, as at December 31, 2010, the Company capitalized interest costs of \$4.6 million (2009 - \$3.1 million; 2008 - \$3.4 million) relating to the construction of rigs. In addition, \$1.2 million of depreciation expense in 2010 (2009 - \$1.0 million; 2008 - \$1.0 million) was recorded under US GAAP resulting from the increase in the net book value of rigs due to the capitalized interest. Finally, in connection with the sale of a rig in 2010, an additional \$0.5 million loss (2009 - \$nil; 2008 - \$1.6 million) was recognized under US GAAP from the higher net carrying value of the asset at the time of sale. The tax effect of these differences is \$0.9 million (2009 - \$0.6 million; 2008 - \$0.3 million)

#### b) Convertible debentures

Under Canadian GAAP, the Company's convertible debentures were classified as debt with a portion, representing the value associated with the conversion feature, being allocated to equity. In addition, under Canadian GAAP a non-cash interest expense representing the effective yield of the debt component is recorded in the consolidated statements of operations with a corresponding credit accreting the carrying value of the convertible debenture to its face value due on maturity. In addition, upon termination of the convertible debentures, the remaining accretion value of \$10.1 million was recognized in order to ensure the face value of the liability was consistent with its carrying value. The tax effect of these differences is \$4.5 million (2009 - \$1.6 million; 2008 - \$1.5 million).

Under US GAAP, the convertible debentures in their entirety were classified as debt. The non-cash interest expense recorded under Canadian GAAP would not be recorded under US GAAP. \$15.9 million of non-cash interest expense has been reversed under US GAAP (December 31, 2009 - \$5.3 million; December 31, 2008 - \$4.8 million). Also, upon settlement of the debentures, the equity portion of the debentures was transferred to contributed surplus for Canadian GAAP purposes. A consistent adjustment would be recorded for US GAAP.

#### c) Stock-based compensation

When the Company was structured as a Trust the rights granted under the Company's former Trust Unit Rights Incentive Plan were considered liability awards for US GAAP and equity awards under Canadian GAAP due to the underlying trust units being classified as mezzanine equity under US GAAP as discussed below. This classification difference between a liability award and an equity award has an impact on the related accounting treatment.

Under Canadian GAAP, the rights are accounted for using the fair value method for an equity award. Under this method, the fair value of the right is determined on the grant date and is not subsequently remeasured. This amount is charged to earnings over the service period of the award, with a corresponding increase in contributed surplus. When rights are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded to unitholders' capital.

Under US GAAP, the rights are accounted for using the fair value method for a liability award. Under this method, the trust unit rights liability is calculated based on the rights fair value at each reporting date until the date of settlement, with the resulting change either being charged or credited to net earnings as compensation expense (recovery). The compensation cost for each period includes the change in the fair value of the rights for each reporting period. When rights are exercised, the proceeds, together with the amount recorded as a trust unit rights liability, are recorded to mezzanine equity.

The following assumptions were used to arrive at the estimates of fair value as at each of the following dates:

For the years ended December 31,	March 10, 2008 <sup>(1)</sup>	December 31, 2007	December 31, 2006
Right's exercise price	\$9.59 - \$16.83	\$8.45 - \$16.83	\$4.37 - \$16.83
Expected volatility	31.0% - 42.0%	32.0% - 39.0%	31.0% - 55.0%
Annual dividend yield	5.0%	10.3%	8.4%
Risk-free interest rate	3.0%	3.9%	3.5%
Forfeiture rate	2.0%	2.0%	2.0%

(1) Date of conversion from a Trust to a Company.

The following chart details the US GAAP differences relating to our trust unit rights plan for the years ended December 31, 2010, 2009, and 2008.

December 31,	2010			2009			2008		
	CDN GAAP	US GAAP	Diff	CDN GAAP	US GAAP	Diff	CDN GAAP	US GAAP	Diff
(\$ thousands)									
Stock-based compensation expense	3,971	3,971	-	4,366	4,366	-	2,465	1,570	895
Contributed surplus	56,388	12,073	(44,315)	27,832	8,102	(19,730)	19,043	3,736	(15,307)
Retained earnings (deficit)	(149,129)	(104,814)	44,315	(42,828)	(23,098)	19,730	2,399	17,706	15,307

As a result of the conversion to a corporation, under US GAAP the fair value of the liability award on the date of conversion was reclassified to contributed surplus. There are no material differences to the consolidated statement of operations after the conversion to a corporation on March 10, 2008. The only remaining difference relates to the reclassification between share capital and contributed surplus which has not been disclosed in the reconciliation as there is no impact on the shareholders' equity of the Company.

#### d) Stock- based compensation - forfeitures

Under Canadian GAAP, an accounting policy choice exists with regards to the accounting for forfeitures allowing the impact of forfeitures to be recognized as they occur or estimated when the awards are granted. For Canadian GAAP purposes, the Company applies the former policy choice. Under US GAAP, estimated forfeitures are required to be considered when the awards are granted. Therefore, a decrease of \$0.1 million of stock-based compensation has been recorded under US GAAP for the year ended December 31, 2010 (December 31, 2009 - \$0.1 million; December 31, 2008 - \$0.1 million).

#### e) Income taxes

Under Canadian GAAP, substantively enacted tax rates are used to calculate future income tax. Under US GAAP, enacted tax rates are required for the future income tax calculation. There are no differences in the substantively enacted rates used and the enacted tax rates existing in any of the periods presented.

Under Canadian GAAP, there is less guidance on accounting for income tax uncertainties. Under US GAAP, there are strict guidelines listed under ASC 740, Income Taxes, which clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Trinidad does not have any income tax uncertainties and therefore there are no GAAP differences in any of the periods presented.

The impact of the differences identified in the reconciliation is tax effected in the reconciliation.

#### f) Deferred charges

Under Canadian GAAP, debt issuance costs are presented as a reduction of the related debt and reflected in the amortized cost of long-term debt or convertible debentures. Under US GAAP, debt issuance costs associated with long-term debt and convertible debentures is classified separately as a deferred charge and amortized over the term of the debt instrument. As a result, debt issuance costs are reclassified to reflect a long-term asset - deferred charges, with an offsetting increase to either long-term debt or the convertible debentures.

#### g) Mezzanine equity

A US GAAP difference existed prior to the Trust's conversion to a corporation on March 10, 2008 as a result of the redemption feature in the trust units including the equivalent exchangeable shares, which was required for the Trust to retain its Canadian mutual fund trust status. The trust units were redeemable at anytime at the option of the holder for approximately 90% of the current trading price. For Canadian GAAP, the trust units were considered to be permanent equity and were presented as unitholders' capital. Under US GAAP, the redemption feature of the trust units excluded them from classification as permanent equity and resulted in the trust units being classified as mezzanine equity at the redemption value of the trust units each reporting period. Changes in unitholders' mezzanine equity as a result of changes to the redemption value in excess of trust units issued, net of redemptions, were recorded directly to retained earnings (deficit).

When the Company converted to a corporation on March 31, 2008, the redemption value of mezzanine equity was reclassified to share capital. As a result, \$166.3 million in additional share capital has been recorded as at December 31, 2010 and 2009 under US GAAP.

#### h) Consolidated statements of cash flows

The application of US GAAP would not have a material effect on cash flow from total operating, investing, or financing activities on the consolidated statement of cash flows, except that under US GAAP one subtotal within the consolidated statement of cash flows would not be presented.

#### i) Comprehensive income (loss)

US GAAP requires the presentation of net income and comprehensive income. Comprehensive income includes net income plus other comprehensive income items as specifically identified by US GAAP. The Company currently has no financial items that would be included as other comprehensive income, and therefore, net income (loss) and comprehensive income (loss) are equivalent for all periods presented.

#### j) Recently issued accounting pronouncements

In April 2008, the FASB issued ASC 350-30 (formerly FSP 142-3), "Determination of the Useful Life of Intangible Assets". ASC 350-30 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350-10 (formerly SFAS 142), "Goodwill and Other Intangible Assets". ASC 350-30 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The adoption of ASC 350-30 on January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued ASC 810-10 (formerly SFAS 167), "Amendments to FASB Interpretation No. 46(R)". ASC 810-10 amends ASC 810-10 (formerly FIN 46(R)), "Consolidation of Variable Interest Entities," and changes the consolidation guidance applicable to a variable interest entity (VIE). It also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This

standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, ASC 810-10 required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. Qualifying Special Purpose Entities (QSPEs), which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. ASC 810-10 also requires enhanced disclosures about an enterprise's involvement with a VIE. The adoption of this standard did not have a material impact on the Trinidad's financial statements.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05 - "Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value" (ASU 09-05), which became effective the first reporting period (including interim periods) beginning after issuance. ASU 09-05 requires entities to measure the fair value of liabilities using one or more of several prescribed valuation techniques within the ASU when quoted prices in an active market for the identical liability are not available. The ASU also clarifies that: entities are not required to include separate inputs or adjustments to other inputs relating to the existence of restrictions that prevent the transfer of liabilities when estimating their fair value; and quoted prices in active markets for identical liabilities at the measurement date and the quoted prices for identical liabilities traded as assets in active markets when adjustments to the quoted prices of assets are required are Level 1 fair value measurements. The adoption of this standard did not have a material impact on the Trinidad's financial statements.

In June 2009, the FASB issued ASU 2009-01 (ASU 09-01) "Topic 105 - Generally Accepted Accounting Principles" (formerly, SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles"). This standard became effective for interim and annual periods ending after September 15, 2009. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP. The adoption of this standard did not have a material impact on the consolidated financial statements of Trinidad.

In May 2009, the FASB issued ASC 855 "Subsequent Events" (formerly, SFAS No. 165, "Subsequent Events"), which establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The guidance was effective for interim or annual periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the consolidated financial statements of Trinidad.

In March 2009, the FASB issued ASC 815 "Derivatives and Hedging" (formerly, SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities") effective January 1, 2009. The standard requires qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of gains and losses on derivative contracts and details of credit-risk-related contingent features in those derivative contracts. The standard also requires disclosure of the financial statement location and amounts of derivative instruments in the applicable financial statement for each interim and annual reporting period. The adoption of this standard did not have a material impact on the consolidated financial statements of Trinidad.

The FASB has released additional guidance with respect to the accounting and disclosure of transfers of financial assets such as securitized accounts receivable. Although Trinidad currently does not have an accounts receivable securitization program, the guidance, which includes revisions to the derecognition criteria in a transfer and the treatment of qualifying special purpose entities, would be applicable to any future securitization. The new guidance would be effective for Trinidad from January 1, 2010. Currently, the adoption of this guidance has no impact to Trinidad's financial statements.

## CORPORATE INFORMATION

### DIRECTORS

**Michael E. Heier**

Chairman  
Trinidad Drilling Ltd.  
Calgary, AB

**Naveen Dargan**

Independent Businessman  
Calgary, AB

**Brock Gibson**

Chair  
Blake, Cassels & Graydon LLP  
Calgary, AB

**Lewis W. Powers**

Independent Businessman  
Montgomery, Texas

**Ken Stickland**

Chief Legal Officer,  
TransAlta Corporation  
Calgary, AB

**Lyle C. Whitmarsh**

President and  
Chief Executive Officer  
Trinidad Drilling Ltd.  
Calgary, AB

### MANAGEMENT

**Lyle C. Whitmarsh**

President and  
Chief Executive Officer

**Brent J. Conway**

Executive Vice President and  
Chief Financial Officer

**Lesley Bolster**

Vice President,  
Finance and Treasurer

**Jason Clemett**

Senior Vice President,  
Sales and Marketing

**Adrian Lachance**

Chief Operating Officer,  
US Drilling Operations  
and Manufacturing

**Ed Oke**

Vice President,  
Human Resources and Safety

**Bob Russell**

Chief Operating Officer,  
Canada and Mexico  
Drilling Operations

### BANKERS

**TD Canada Trust**

Calgary, AB

**Wells Fargo**

Houston, TX

### AUDITORS

**PricewaterhouseCoopers LLP**

Chartered Accountants  
Calgary, AB

### LEGAL COUNSEL

**Blake, Cassels & Graydon LLP**

Calgary, AB

### REGISTRAR AND TRANSFER AGENT

**Valiant Trust Company**

Calgary, AB

### ANNUAL MEETING

The Annual General and Special Meeting of shareholders will be held on June 1st, 2011 at 3.00 p.m. Mountain Time in the Viking Room at the Petroleum Club, 319 - 5 Avenue S.W., Calgary, AB.



### **TRINIDAD DRILLING LTD.**

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