High Arctic Energy Services Trust

(formerly High Arctic Energy Services Inc.)

Consolidated Financial Statements

December 31, 2005 and 2004 and May 31, 2004

(in millions of dollars)

PricewaterhouseCoopers LLP
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March 13, 2006

Auditors' Report

To the Trustees of
High Arctic Energy Services Trust

We have audited the consolidated balance sheets of **High Arctic Energy Services Trust** as at December 31, 2005 and 2004 and May 31, 2004 and the consolidated statements of earnings (loss) and retained earnings (deficit) and cash flows for the year ended December 31, 2005, for the seven month period ended December 31, 2004 and for the year ended May 31, 2004. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and May 31, 2004 and the results of its operations and its cash flows for the year ended December 31, 2005, for the seven month period ended December 31, 2004 and for the year ended May 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Canada

High Arctic Energy Services Trust

Consolidated Balance Sheets

(in millions of dollars)

	December 31, 2005 $	December 31, 2004 $	May 31, 2004 $
Assets			
Current assets			
Accounts receivable (note 14)	31.8	13.7	9.1
Inventory	1.2	0.7	0.5
Prepaid expenses	0.5	0.3	0.4
Due from related parties (note 12)	0.9	-	-
	34.4	14.7	10.0
Investment in affiliate (note 3)	3.0	-	-
Property and equipment (note 5)	51.1	24.2	16.3
Rigs and equipment under construction (note 6)	27.1	3.8	-
	115.6	42.7	26.3
Liabilities			
Current liabilities			
Bank indebtedness (note 7)	13.7	8.1	3.3
Accounts payable and accrued liabilities	18.0	7.8	2.9
Bonuses payable and RCA payable (note 17)	-	1.9	-
Distribution payable (note10)	2.1	-	-
Due to related party	-	0.2	6.2
Due to shareholder (note 8)	-	6.8	2.9
Short-term portion of long-term debt (note 9)	-	15.4	12.2
	33.8	40.2	27.5
Long-term debt (note 9)	-	4.6	3.6
Future income taxes	-	0.1	0.1
Non-controlling interest (note 10)	57.8	(0.1)	(0.1)
Unitholders' Equity (Deficiency)			
Unitholders' capital (note 10)	35.2	-	-
Contributed surplus (note 11)	0.2	-	-
Retained earnings (deficit)	(1.5)	(2.1)	(4.8)
Accumulated distributions	(9.9)	-	-
	24.0	(2.1)	(4.8)
	115.6	42.7	26.3

Commitments (notes 3 and 13)

See accompanying notes.

Approved on behalf of the Trust by its administrator, High Arctic Energy Corp.

(signed) "Jed Wood" Director

("signed "Christopher Warren" Director

High Arctic Energy Services Trust

Consolidated Statements of Earnings (Loss) and Retained Earnings (Deficit)

(in millions of dollars, except per unit amounts)

	Year ended December 31, 2005 $	Seven months ended December 31, 2004 $	Year ended May 31, 2004 $
Revenue	82.7	29.1	36.3
Expenses			
Oilfield services	45.8	16.3	21.8
General and administration	9.5	4.6	5.5
Amortization	10.3	2.9	3.4
Foreign exchange loss (gain)	0.1	(0.2)	-
	65.7	23.6	30.7
Operating earnings	17.0	5.5	5.6
Interest	0.9	0.8	1.2
Pre-initial public offering management restructuring and bonus payments (note 17)	13.7	1.9	5.5
Net earnings (loss) before income taxes	2.4	2.8	(1.1)
Income taxes (note 15)	0.7	0.1	-
Net earnings (loss) for the period before non-controlling interest	1.7	2.7	(1.1)
Non-controlling interest (note 10)	1.1	-	-
Net earnings (loss) for the period	0.6	2.7	(1.1)
Retained earnings (deficit) – Beginning of period	(2.1)	(4.8)	(3.7)
Retained earnings (deficit) – End of period	(1.5)	(2.1)	(4.8)
Earnings (loss) per unit – basic and diluted	0.07	0.28	(0.12)

See accompanying notes.

High Arctic Energy Services Trust

Consolidated Statements of Cash Flows

(in millions of dollars)

	Year ended December 31, 2005 $	Seven months ended December 31, 2004 $	Year ended May 31, 2004 $
Cash provided by (used in)			
Operating activities			
Net earnings (loss) for the period	0.6	2.7	(1.1)
Add (deduct) non-cash items			
Amortization	10.3	2.9	3.4
Non-controlling interest	1.1	-	-
Unit-based compensation	0.2	-	-
	12.2	5.6	2.3
Change in non-cash working capital balances (note 18)	(15.4)	1.3	(5.5)
	(3.2)	6.9	(3.2)
Investing activities			
Property and equipment and Rigs and equipment under construction	(52.2)	(14.6)	(8.3)
Investment in affiliate (note 3)	(3.0)	-	-
Change in non-cash working capital balances (note 18)	4.9	0.8	-
Acquisition (note 4)	(3.6)	-	-
	(53.9)	(13.8)	(8.3)
Financing activities			
Advances from (to) related parties	(1.1)	(6.0)	5.4
Advances from (to) a shareholder	(6.8)	3.9	0.8
Proceeds from long-term debt	12.5	5.8	5.6
Repayment of long-term debt	(32.5)	(1.6)	(1.8)
Unitholder distributions (note 10)	(9.9)	-	-
Issuance of units, net of costs	87.2	-	-
Change in non-cash working capital balances (note 18)	2.1	-	-
Change in bank indebtedness	5.6	4.8	1.5
	57.1	6.9	11.5
Net increase in cash and cash equivalents	-	-	-
Cash and cash equivalents – Beginning of period	-	-	-
Cash and cash equivalents – End of period	-	-	-
Supplemental information			
Cash paid for:			
Interest	0.9	0.8	1.2
Income taxes	0.7	-	-
Non-cash items			
Units issued for acquisition (note 4)	4.7	-	-

See accompanying notes.

(tabular amounts in millions of dollars, except per unit amounts)

1 Basis of presentation and structure of the Trust

The Trust is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Declaration of Trust dated June 10, 2005. The Trust was created to invest indirectly in the former business of High Arctic Energy Services Inc. ("HAES"), through an acquisition of a minority participating interest in High Arctic Energy Services Limited Partnership ("High Arctic"). High Arctic commenced operations on July 21, 2005 by acquiring all the business assets and interest of HAES and High Arctic Energy Corp. and is continuing with the same operations. Comparative figures represent the assets, liabilities, equity, and operations of these entities.

The Trust's principal focus is to engage in the global oilfield services business by providing underbalanced drilling and production services, equipment, design and development and technical support and training to the Canadian and international oil and gas industry.

The consolidated financial statements of the Trust give effect to the acquisition by the Trust of an indirect participating interest in High Arctic, which acquired the operating assets at the carrying value of HAES. The Trust has effective control of High Arctic and is considered a continuation of HAES and High Arctic Energy Corp. The indirect participating interest has been accounted for as a reverse takeover that does not constitute a business combination. The non-controlling interest of approximately 62% represents HAES ownership in High Arctic.

These financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

2 Summary of significant accounting policies

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include the amortization of property and equipment, recoverability of accounts receivable, valuation of unit-based compensation and potential impairment of property and equipment. Actual results could differ from these estimates.

Principles of consolidation

These financial statements represent the accounts of the Trust and its subsidiary partnership, High Arctic, and include the latter's wholly-owned subsidiaries - High Arctic Energy Services (Barbados) Inc. and High Arctic Energy Services LLC.

Consolidation of variable interest entities

The recommendations of Accounting Guideline AcG15 were adopted in the December 31, 2004 and May 31, 2004 audited consolidated financial statements, resulting in the consolidation of two companies (High Arctic Energy Corp. and Tri-Equity Group Insurance Ltd.). These companies were consolidated as if they were

(tabular amounts in millions of dollars, except per unit amounts)

subsidiaries of High Arctic with a non-controlling interest being recorded. In the quarter ended September 30, 2005, all the assets of High Arctic Energy Corp. were acquired by High Arctic and the business of Tri-Equity Group Insurance Ltd. was incorporated into the Trust.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term market investments that are highly liquid in nature and have a maturity date of three months or less.

Inventory

Inventory consists primarily of operating supplies and spare parts and is valued at the lower of average cost and replacement cost.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Equipment is amortized using the declining balance method over their estimated useful lives at the following rates:

Automotive	30%
Computer hardware	30%
Computer software	100%
Equipment – field	20%
Equipment – hydraulic workover rigs	25%
Equipment – snubbing, air drilling and nitrogen	25%
Equipment – office	20%
Leasehold improvements	Lease term or five years

Management assesses the carrying amount of property and equipment for impairment when events indicate that the carrying amounts is not recoverable and an impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value. No impairment loss has been recorded to date.

Rigs and equipment under construction

Design and construction costs related to drilling and surface recovery equipment under construction, including all costs for preparing the asset for its intended use, are recorded as rigs and equipment under construction and are not subject to amortization until the asset is placed into service.

Investments

Investments in other companies over which the Trust does not have significant influence are accounted for by the cost method. Investments are written down to their net realizable value should a decline in value occur that is other than temporary.

(tabular amounts in millions of dollars, except per unit amounts)

Income taxes

The Trust is a taxable entity under the Canadian Income Tax Act and is taxable only on earnings that are not distributed to Unitholders. The tax deductions received by the Trust for distributions to Unitholders represent an exemption from taxation equivalent to the Trust's earnings. The Trust is also exempt from future income taxes as it is contractually committed to annually distribute sufficient amounts to eliminate income taxes.

The Trust's subsidiaries use the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined for the income tax consequences attributable to differences between amounts recorded in the financial statements and their respective tax bases, using substantially enacted tax rates. The effect of any change in income tax rates on future tax assets and liabilities is recognized in earnings in the period that the change occurs.

Research and development

Research and development expenditures are expensed as incurred unless recovery of costs associated with the development of new tools and systems can be reasonably assured given existing and anticipated future industry conditions, in which case the costs are deferred and amortized.

Employee benefit plans

The Trust provides a defined contribution pension plan for employees. Contributions by the Trust are expensed when accrued. The Trust has no other post-retirement benefit plans.

Foreign currency translation

Transactions denominated in foreign currencies are translated at the rate of exchange in effect on the date of the transaction.

Monetary assets and liabilities of integrated foreign operations are translated using the rate of exchange in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at historical rates of exchange. Revenues and expenses are measured at average monthly exchange rates, except for amortization, which is determined using the historical exchange rate. Gains and losses resulting from translation are included in the statement of income (loss).

Revenue recognition

The Trust's services are generally sold through contracts that include fixed or determinable prices based upon daily, hourly or job rates. Contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services are rendered or over equipment rental periods, and when collectability is reasonably assured.

(tabular amounts in millions of dollars, except per unit amounts)

Unit-based compensation plans

The Trust has a Trust Unit Option Plan which is described in Note 11. The fair value of Unit purchase options is calculated at the date of the grant using the Black-Scholes option pricing model. The value is recorded as compensation expense over the grant's vesting period with an offsetting credit to contributed surplus. Upon exercise of the Unit purchase option, the associated amount is reclassified from contributed surplus to Unit capital. Consideration received from employees upon exercise of options is credited to Unitholders' capital.

Per Unit amounts

Basic per Unit amounts are calculated using the weighted average number of Trust Units outstanding during the year. Diluted per Unit amounts are calculated as if all Exchangeable Shares are converted to Units and the non-controlling interest eliminated as well as the proceeds on the exercise of options being used to purchase Units at the average market price during the period.

Comparative figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

3 Investment in affiliate

	December 31, 2005 $	December 31, 2004 $	May 31, 2004 $
Investment – at cost	3.0	-	-

On October 14, 2005, the Trust exercised its option to acquire 10 per cent of the outstanding shares of Sense EDM AS ("Sense/EDM"), for total cash consideration of 16.5 million kroner, or approximately $3.0 million Canadian. The entity is based in Norway and is a designer and manufacturer of drilling and well-service equipment. The Trust currently uses Sense/EDM equipment in its operations, has an exclusive license for use of their patented drilling technology and acquired one rig from Sense/EDM in 2005 for $5.0 million. Additionally, the Trust has agreed to purchase nine rigs from Sense/EDM for delivery in 2006 to 2007 at an estimated total cost of $50 million, of which $16.5 million is included in rigs and equipment under construction. The Trust also holds an option to purchase five rigs at an estimated cost of $28 million.

(tabular amounts in millions of dollars, except per unit amounts)

4 Acquisitions

On September 1, 2005 the Trust, through High Arctic, acquired the property and equipment of Alberta Mobile Air Services (1998) Inc. ("AMA"). The aggregate purchase price was $8.3 million, composed of $3.6 million in cash and $4.7 million in Trust Units. The amount whereby the purchase price exceeded the carrying value of the assets acquired was allocated to property and equipment representing their estimated fair market value. AMA provides portable compression services to the drilling and pipeline industries, including underbalanced drilling with air-generated nitrogen from skid-mounted units and the purging and air drying of pipelines.

Subsequent to year end, on February 1, 2006 the Trust purchased the assets of Kamber Well Service Ltd. for $4.7 million. The purchase includes two rigs and related support equipment and has been accounted for as an addition to property and equipment. The Trust utilized existing cash and credit facilities to acquire the assets.

5 Property and equipment

			December 31, 2005
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Automotive	6.5	4.6	1.9
Computer hardware	0.3	0.1	0.2
Computer software	0.2	0.2	0.0
Equipment – field	19.6	4.7	14.9
Equipment – hydraulic workover rigs	20.7	5.4	15.3
Equipment – snubbing, air drilling and nitrogen	28.1	9.7	18.4
Equipment – office	0.2	0.0	0.2
Leasehold improvements	0.3	0.1	0.2
	75.9	24.8	51.1

			December 31, 2004
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Automotive	7.1	3.9	3.2
Computer hardware	0.1	0.1	-
Computer software	0.1	-	0.1
Equipment – field	9.0	1.5	7.5
Equipment – hydraulic workover rigs	11.5	2.6	8.9
Equipment – snubbing, air drilling and nitrogen	10.7	6.7	4.0
Equipment – office	0.1	-	0.1
Leasehold improvements	0.4	-	0.4
	39.0	14.8	24.2

(tabular amounts in millions of dollars, except per unit amounts)

			May 31, 2004
	Cost	Accumulated amortization	Net
	$	$	$
Automotive	5.9	3.5	2.4
Computer hardware	0.1	-	0.1
Computer software	0.1	0.1	-
Equipment – field	3.4	1.0	2.4
Equipment – hydraulic workover rigs	9.4	0.8	8.6
Equipment – snubbing, air drilling and nitrogen	9.2	6.5	2.7
Equipment – office	0.1	-	0.1
	28.2	11.9	16.3

During 2005 the Trust retired certain projects and equipment have a cost and accumulated amortization value of $0.3 million.

The Trust expensed $0.4 million of research costs related to new drilling equipment technologies (December 31, 2004 - $0.2 million; May 31, 2004 - $0.3 million).

6 Rigs and equipment under construction

	December 31, 2005	December 31, 2004	May 31, 2004
	$	$	$
Equipment – hydraulic workover rigs	16.5	3.8	-
Equipment – snubbing, air drilling and nitrogen	10.6	-	-
	27.1	3.8	-

7 Bank indebtedness

At December 31, 2005, the Trust had available $40.0 million under a committed credit facility, of which $13.7 million had been drawn (December 31, 2004 - $8.1 million; May 31, 2004 - $3.3 million). The facility comprises a revolving operating line of credit, to a maximum of the lesser of $15 million and 75% of Canadian accounts receivable aged less than 90 days, and a revolving equipment loan of $25.0 million. Amounts drawn at December 31, 2005 were against the revolving operating line of credit.

The revolving operating line of credit bears interest at the bank's prime rate plus 0.75% (effective rate of 5.75% at December 31, 2005, 5.0% at December 31, 2004 and 4.5% at May 31, 2004) and is secured by accounts receivable. The revolving equipment loan bears interest at the bank's prime rate plus 1.00%.

(tabular amounts in millions of dollars, except per unit amounts)

The Trust and its bank have negotiated an increase in the available committed credit facility to $50.0 million, including $15.0 million for the revolving operating line of credit and $35.0 million for the revolving equipment loan. The Trust expects finalization of this matter in March 2006.

8 Due to shareholder

The amount due to a shareholder was non-interest bearing, unsecured and repaid in full from proceeds received from the initial public offering.

9 Long-term debt

	December 31, 2005 $	December 31, 2004 $	May 31, 2004 $
Loans payable	-	20.0	15.8
Less: Current portion	-	(15.4)	(12.2)
	-	4.6	3.6

Included in interest expense is interest on long-term debt of $1.0 million for the period ended July 21, 2005 (December 31, 2004 - $0.6 million; May 31, 2004 - $1.0 million). Proceeds from the issuance of Trust units on July 21, 2005 were used, in part, to retire all outstanding long-term debt.

10 Unitholders' capital

December 31, 2004 and May 31, 2004

Authorized

Unlimited number of Classes "A", "B", "C" and "D" common voting shares
Unlimited number of Classes "E" and "F" common non-voting shares
Unlimited number of Classes "G" and "H" preferred redeemable shares

Issued

500 Class "A" shares –December 31, 2004 and May 31, 2004, totalling five dollars at each date.

December 31, 2005

Authorized

Trust Units
The Declaration of Trust provides that an unlimited number of Trust Units may be issued. Each Trust Unit represents an equal, undivided beneficial interest in any distribution from the Trust in the event of termination or wind-up. All Trust Units are of the same class with equal rights and privileges.

(tabular amounts in millions of dollars, except per unit amounts)

LP Units

High Arctic will be authorized to issue, in addition to the 0.001% managing general partner's interest held by the General Partner, an unlimited number of LP Class A Units and an unlimited number of LP Class B Units and, subject to certain restrictions, such other classes of partnership interests as the General Partner may decide from time to time. All of the LP Class A Units will be held by a Holding Trust and all of the LP Class B Units will be held by HAES. Each LP Unit will rank equally with each other unit of the same class or series and no partner is entitled to any privilege, priority or preference in relation to any other partner holding units of the same class or series.

Initially, (i) the number of issued LP Class A Units equaled the number of issued Trust Units and (ii) the number of issued LP Class B Units equaled the number of issued Series A Exchangeable Shares. The terms and conditions of the Partnership Agreement adjust the numbers of LP Class A Units and LP Class B Units from time to time to maintain such equalities until such time as all of the LP Units are owned directly or indirectly by the Trust.

Exchangeable Shares

Two series of Exchangeable Shares of HAES, each in unlimited number, were authorized, designated as the Series A Exchangeable Shares and the Series B Exchangeable Shares. The holders of Exchangeable Shares of each series have the right to receive Trust Units at any time after a specified hold period in exchange for their Exchangeable Shares, on the basis of the exchange ratio in effect at the time of the exchange. The Shares have voting attributes (through the benefit of the Special Voting Right granted to the trustee pursuant to the Voting and Exchange Trust Agreement) equivalent to those of the Trust Units into which they are exchangeable from time to time.

Special voting rights

An unlimited number of Special Voting Rights have been authorized to enable the Trust to provide voting rights to holders of Exchangeable Shares. Holders of Special Voting Rights are not entitled to distributions of any nature whatsoever from the Trust and are entitled to such number of votes at all meetings of Unitholders equal to the number of Trust Units which the Exchangeable Shares to which the Special Voting Rights relate are, directly or indirectly, exchangeable or convertible.

(tabular amounts in millions of dollars, except per unit amounts)

	Units	Amount $
Trust and LP Class A Units		
Issuance on the initial public offering	8,000,000	80.0
Issuance on over allotment of initial public offering	400,000	4.0
Issuance on private placement	996,572	10.0
Issuance on the purchase of AMA (note 3)	373,134	4.7
Unit issuance costs	-	(6.8)
Non-controlling interest at initial public offering	-	(56.7)
Total Trust and LP Class A Units - issued	9,769,706	35.2
Non-controlling interest		
Issuance on the initial public offering – Series A Exchangeable Shares	11,460,571	41.6
Issuance on the initial public offering – Series B Exchangeable Shares	4,152,381	15.1
Change in conversion ratio – Series B Exchangeable Shares	132,501	-
Non-controlling interest in 2005 net earnings	-	1.1
Total non-controlling interest	15,745,453	57.8
	25,515,159	93.0

Class LP B Units
On the creation of the Trust there were 11,460,571 Class LP B Units issued, an amount equal to the number of Series A Exchangeable shares issued on that date. There have been no changes to December 31, 2005.

Exchangeable Shares and Special Voting Rights
On the creation of the Trust, 11,460,571 Series A Exchangeable Shares and 4,152,381 Series B Exchangeable Shares were issued. These remain outstanding at December 31, 2005. With respect to these shares, one Special Voting Right that comprises 15,612,952 votes was issued upon the creation of the Trust and remains outstanding at December 31, 2005.

Cash Distributions

High Arctic will distribute, to limited partners of record on each distribution record date holding LP Class A Units and, subject to the subordination provisions with respect to LP Class B Units, to general partners of record on each Distribution Record Date holding LP Class B Units, their portions of distributable cash as set out in the partnership agreement.

(tabular amounts in millions of dollars, except per unit amounts)

Series A Exchangeable Shares

It is intended, subject to HAES having sufficient funds available for such purpose and subordination restrictions, that holders of Series A Exchangeable Shares receive a monthly cash amount equal to the distributions paid per Trust Unit in respect of the month, net of HAES' estimate of taxes payable in respect of earnings of HAES during such month. Series A Exchangeable Shares will initially, subject to certain anti-dilution adjustments, be exchangeable for Trust Units on a one for one basis.

Series B Exchangeable Shares

Monthly dividends will not be paid on the Series B Exchangeable Shares and, in lieu thereof, these shares will be entitled to an adjustment to the Conversion Ratio for the exchange of such Series B Exchangeable Shares for Series A Exchangeable Shares, which in turn will be exchangeable for Trust Units, based upon the monthly cash distributions paid on the LP Class B Units and the market value of the Trust Units. Series B Exchangeable Shares will initially, subject to certain anti-dilution adjustments, be indirectly exchangeable for Trust Units on a one for one basis with the conversion ratio in respect of the Series B Exchangeable Shares adjusting to account for distributions paid to Unitholders. Series B Exchangeable Shares will be convertible into Series A Exchangeable Shares at a conversion ratio in proportion to the number of Trust Units which the shares of each series are exchangeable for at the time of the conversion.

The holders of the Series A Exchangeable Shares and the Series B Exchangeable Shares agreed not to exchange Series A Exchangeable Shares for Trust Units prior to the subordination provisions of the LP Class B Units ceasing to apply, which will not be prior to March 31, 2008.

Distributions to December 31, 2005 were $4.5 million for Trust Units, $5.4 million for Series A Exchangeable Shares and $nil million for Series B Exchangeable Shares. Included in these amounts is $2.1 million declared and payable at December 31, 2005. Additionally, the conversion ratio for the Series B Exchangeable Shares increased from 1.000 per Series A Exchangeable Share to 1.039 effective January 15, 2006.

Per unit amounts

The weighted average number of units outstanding for the year were 9,506,577 basic units and 25,324,061 diluted units (December 31, 2004 and May 31, 2004 – 9,396,572 basic units and 25,009,524 diluted units in each period).

(tabular amounts in millions of dollars, except per unit amounts)

11 Unit-based compensation plans

As an incentive for directors, management and key employees, the Trust have a Trust Unit Option Plan that provides options to purchase Units. A total of 2,461,000 Units are available for grants under the plan.

At December 31, 2005, a total of 940,500 Unit options are exercisable up to 2010 at amounts that range from $10.00 to $12.09 per Unit. These options were all issued since July 21, 2005, have a term of 5 years and allow the holder to exercise their options over a three-year vesting period with 40% exercisable on the first anniversary date, 30% on the second anniversary date and 30% on the third anniversary date.

	Number of Units	Weighted Average Exercise Price $
Granted	991,000	10.36
Exercised	-	-
Cancelled	(50,500)	10.42
	940,500	10.35

The Trust recognized unit-based compensation expense and contributed surplus of $0.2 million for the period ended December 31, 2005 using the following assumptions in the Black-Scholes model: average risk-free interest rate of 4.2%; average expected life of 5 years; expected volatility of 40% and a weighted average estimate of distribution yield of 10.18%.

12 Related party transactions

The amount due from related parties arises from the Trust acquiring property and equipment on behalf of a company controlled by the Chief Executive Officer ("CEO") of the Trust for use in the operation of the Trust. The amount is non-interest bearing and due on demand.

In the normal course of business, during the year ended December 31, 2005 the Trust paid premises rent and equipment and vehicle leases payments of $1.2 million (December 31, 2004 - $0.4 million; May 31, 2004 - $1.9 million) to companies controlled by the CEO. In addition, management fee revenue of $nil million was received from these companies (December 31, 2004 – $0.1 million; May 31, 2004 – $0.4 million). Outstanding net payable amounts in connection with the transactions at December 31, 2005 were $0.5 million (December 31, 2004 - $nil million; May 31, 2004 - $nil million). The net payable does not bear interest and is due on demand.

Included in revenues and accounts receivable for the year ended December 31, 2005 is $13.6 million and $9.0 million, respectively, in relation to a contract with a company in which the CEO has an ownership interest. The amount receivable was collected in its entirety subsequent to year end.

These transactions are measured at exchange values based on rates charged to arms length customers which, in the opinion of management, approximate fair value.

(tabular amounts in millions of dollars, except per unit amounts)

13 Commitments

In addition to the equipment purchase commitment described in note 3, the Trust has entered into long-term premises leases with a related party described in note 12 that expire in 2009. The leases contain an option to renew for a further five years. Future minimum lease payments as at December 31, 2005 were:

	$
2006	1.4
2007	1.2
2008	0.8
2009	0.5
	3.9

14 Financial instruments

Fair value

The carrying value of accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments or the interest rates attached to the instruments.

Credit risk

The Trust is exposed to credit risk on the accounts receivable from its customers. To reduce its credit risk, the Trust has adopted credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. An allowance for doubtful accounts has been established based upon factors surrounding the credit risk of specific customers, historical trends and other information.

During the year ended December 31, 2005, 42% of the Trust’s sales (December 31, 2004 – 16%; May 31, 2004 – 31%) were to two customers. At December 31, 2005, the Trust had accounts receivable of 53% (December 31, 2004 – 16%; May 31, 2004 – 35%) from these customers.

Interest rate risk

The Trust is exposed to interest rate price risk in respect of any long-term debt which bears a fixed rate of interest.

Foreign exchange risk

Foreign exchange risk is the risk that variations in exchange rates between the Canadian dollar and foreign currencies will affect the Trust's operating and financial results. The Trust earns a portion of revenue and pays a portion of expenses in foreign currencies and does not use derivative instruments to reduce its exposure to foreign exchange risk.

(tabular amounts in millions of dollars, except per unit amounts)

15 Income taxes

The tax provision recorded on the consolidated financial statements differs from the amount computed by applying the combined Canadian and Alberta income tax statutory rates to earnings before tax as follows:

	December 31, 2005 $	December 31, 2004 $	May 31, 2004 $
Income (loss) before taxes	2.4	2.8	(1.1)
Less: Earnings taxed outside of Trust	(2.4)	-	-
Earnings (loss) before taxes	-	2.8	(1.1)
Statutory income tax rate	32.5 %	17.0%	17.0%
Expected taxes at statutory rates	-	0.5	(0.2)
Add (deduct) the tax effect of:			
Non-taxable earnings – foreign operations	-	(0.4)	0.2
Withholding tax – foreign operations	0.7	-	-
Income tax provision	0.7	0.1	-
Effective tax rate	-%	3.6%	-%

16 Segmented information

The Trust operates one business of providing oilfield services to customers. This business has the following geographic characteristics:

	December 31, 2005 $	December 31, 2004 $	May 31, 2004 $
Revenue			
Canada	64.2	18.6	33.6
International	18.5	10.5	2.7
	82.7	29.1	36.3
Property and equipment and Rigs and equipment under construction			
Canada	66.0	18.1	10.6
International	12.2	9.9	5.7
	78.2	28.0	16.3

(tabular amounts in millions of dollars, except per unit amounts)

17 Pre-initial public offering management restructuring and bonus payments

Options

In 2002, HAES had granted an option to a Canadian employee to purchase 10% of the issued shares of the company for $1.00 per common share. The option was subject to certain conditions specified in the agreement, including repayment of company debt on or before July 1, 2007. Upon closing of the initial public offering, these options were cancelled and in return the employee received 830,476 Series A Exchangeable Shares from those held by the Chief Executive Officer of HAES.

In 2004, HAES granted further options to two Dubai employees whereby each employee had an option to purchase 10% of the issued shares of the company for $1.00 per common share. The options were subject to certain conditions specified in the respective agreements including repayment of company debt and that the employee must be an employee of HAES as at September 14, 2007. Pursuant to an agreement with these employees, immediately prior to the issuance of Units by the Trust an amount of approximately $10.0 million was paid to the Dubai employees for the cancellation of their respective stock options. This amount was expensed in these financial statements as a pre-initial public offering management restructuring payment. The employees reinvested the $10.0 million through a private placement for 996,572 trust units, concurrent with the closing of the initial public offering.

Retirement compensation arrangement and bonuses

During the year ended May 31, 2004, a retirement compensation arrangement ("RCA") was established. The RCA allowed funds to be contributed at a level determined by management to fund the retirement of the Chief Executive Officer. Additionally, prior to the creation of the Trust bonuses were paid to the Chief Executive Officer in amounts required to optimize the tax expense of HAES.

For the year ended December 31, 2005, $3.7 million was expensed for the RCA and bonuses (December 31, 2004 – $1.9 million; May 31, 2004 – $ 5.5 million).

(tabular amounts in millions of dollars, except per unit amounts)

18 Supplementary Information

The net change in the following non-cash working capital items increases (decreases) cash flow as follows:

	December 31, 2005 $	December 31, 2004 $	May 31, 2004 $
Operations			
Accounts receivable	(18.1)	(4.6)	(5.0)
Other current assets	(0.7)	0.1	(0.5)
Accounts payable and accrued liabilities	5.3	3.9	-
Bonuses and RCA payable	(1.9)	1.9	-
	(15.4)	1.3	(5.5)
Investing			
Accounts payable and accrued liabilities	4.9	0.8	-
Financing			
Distributions	2.1	-	-