

# High Arctic Energy Services Trust

## Consolidated Balance Sheets

(\$ Million Unaudited)

|   | March 31,<br>20056<br>\$ | December 31,<br>20055<br>\$ |
|---|--------------------------|-----------------------------|
| <b>Assets</b>   |                          |                             |
| <b>Current assets</b>                                 |                          |                             |
| Accounts receivable                                   | 37.9                     | 31.8                        |
| Inventory   | 1.5                      | 1.2                         |
| Prepaid expenses                                      | 0.2                      | 0.5                         |
| Due from related parties (note 9)                     | 0.5                      | 0.9                         |
|   | <u>40.1</u>              | <u>34.4</u>                 |
| <b>Investment</b> (note 2)                            | 3.0                      | 3.0                         |
| <b>Property and equipment</b> (note 3)                | 80.0                     | 51.1                        |
| <b>Rigs and equipment under construction</b> (note 4) | 15.9                     | 27.1                        |
|   | <u>139.0</u>             | <u>115.6</u>                |
| <b>Liabilities</b>                                    |                          |                             |
| <b>Current liabilities</b>                            |                          |                             |
| Operating line of credit (note 6)                     | 13.5                     | 13.7                        |
| Accounts payable and accrued liabilities              | 13.3                     | 18.0                        |
| Distributions payable                                 | 2.1                      | 2.1                         |
| Revolving equipment loan (note 6)                     | 24.6                     | -                           |
|   | <u>53.5</u>              | <u>33.8</u>                 |
| <b>Non-controlling interest</b> (note 7)              | 55.1                     | 52.4                        |
| <b>Unitholders' Equity</b>                            |                          |                             |
| Unitholders' capital (note 7)                         | 35.2                     | 35.2                        |
| Contributed surplus (note 8)                          | 0.3                      | 0.2                         |
| Retained earnings (deficit)                           | 2.0                      | (1.5)                       |
| Accumulated distributions                             | (7.1)                    | (4.5)                       |
|   | <u>30.4</u>              | <u>29.4</u>                 |
|   | <u>139.0</u>             | <u>115.6</u>                |

### Commitments (note 10)

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 and Retained Earnings (Deficit)

(\$ Million except per unit amounts - Unaudited)

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|   | Three<br>months<br>ended<br>March 31,<br>2006<br>\$ | Three<br>months<br>ended<br>March 31,<br>2005<br>\$ |
|---|---|---|
| <b>Revenue</b>  | 38.6  | 18.1  |
| <b>Expenses</b>   |   |   |
| Oilfield services   | 21.3  | 8.6   |
| General and administration  | 3.8   | 2.0   |
| Amortization  | 4.0   | 1.2   |
| Foreign exchange gain   | (0.5)   | (0.6)   |
|   | <u>28.6</u>   | <u>11.2</u>   |
| <b>Operating earnings</b>   | 10.0  | 6.9   |
| Interest  | 0.5   | 0.4   |
| Pre-initial public offering management restructuring and bonus payments | -   | 3.7   |
|   | <u>-</u>  | <u>3.7</u>  |
| <b>Net earnings before income taxes</b>                                 | 9.5   | 2.8   |
| <b>Income taxes</b>   | 0.3   | 0.1   |
|   | <u>0.3</u>  | <u>0.1</u>  |
| <b>Net earnings for the period before non-controlling interest</b>      | 9.2   | 2.7   |
| <b>Non-controlling interest</b>   | 5.7   | -   |
|   | <u>5.7</u>  | <u>-</u>  |
| <b>Net earnings for the period</b>                                      | 3.5   | 2.7   |
| <b>Retained earnings (deficit) – Beginning of period</b>                | (1.5)   | (2.1)   |
|   | <u>(1.5)</u>  | <u>(2.1)</u>  |
| <b>Retained earnings– End of period</b>                                 | 2.0   | 0.6   |
|   | <u>2.0</u>  | <u>0.6</u>  |
| <b>Earnings per unit - basic and diluted</b>                            | \$ 0.36   | \$ 0.28   |
|   | <u>\$ 0.36</u>                                      | <u>\$ 0.28</u>                                      |

See accompanying notes

# High Arctic Energy Services Trust

## Consolidated Statements of Cash Flows

(\$ Million - Unaudited)

|  | Three<br>months<br>ended<br>March 31,<br>2006<br>\$ | Three<br>Months<br>ended<br>March 31,<br>2005<br>\$ |
|--|---|---|
| <b>Cash provided by (used in):</b>                               |   |   |
| <b>Operating activities</b>                                      |   |   |
| Net earnings for the period                                      | 3.5   | 2.7   |
| Add non-cash items:  |   |   |
| Future taxes   | -   | 0.1   |
| Amortization   | 4.0   | 1.2   |
| Non-controlling interest   | 5.7   | -   |
| Unit-based compensation  | 0.1   | -   |
|  | <u>13.3</u>   | <u>4.0</u>  |
| Change in non-cash working capital balances                      | <u>(7.1)</u>  | <u>(3.5)</u>  |
|  | <u>6.2</u>  | <u>0.5</u>  |
| <b>Investing activities</b>                                      |   |   |
| Property and equipment and Rigs and equipment under construction | (21.7)  | (7.0)   |
| Change in non-cash working capital balances                      | (3.7)   | 0.7   |
|  | <u>(25.4)</u>                                       | <u>(6.3)</u>  |
| <b>Financing activities</b>                                      |   |   |
| Advances from (to) related parties                               | 0.4   | (1.3)   |
| Advances from a shareholder                                      | -   | 2.0   |
| Proceeds from long-term debt                                     | -   | 5.1   |
| Repayment of long-term debt                                      | -   | (1.4)   |
| Unitholder distributions   | (5.6)   | -   |
| Change in non-cash working capital balances                      | -   | -   |
| Change in bank indebtedness                                      | 24.4  | 1.4   |
|  | <u>19.2</u>   | <u>5.8</u>  |
| <b>Net increase in cash and cash equivalents</b>                 | -   | -   |
| <b>Cash and cash equivalents – Beginning of period</b>           | <u>-</u>  | <u>-</u>  |
| <b>Cash and cash equivalents – End of period</b>                 | <u>-</u>  | <u>-</u>  |
| <b>Supplemental information</b>                                  |   |   |
| <b>Cash paid for:</b>  |   |   |
| Interest   | 0.5   | 0.4   |
| Income taxes   | 0.3   | 0.1   |

See accompanying notes

# High Arctic Energy Services Trust

## Notes to Consolidated Financial Statements

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

### 1 Accounting policies

These consolidated interim financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles. They follow the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2005 and should be read in conjunction with them.

The Trust's business is considered to have some seasonality, with peak levels generally in the first and fourth quarters.

### 2 Investment

|                      | March 31,<br>2005 | December 31,<br>2004 |
|----------------------|-------------------|----------------------|
|                      | \$                | \$                   |
| Investment – at cost | 3.0               | 3.0                  |

In 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 seven rigs from Sense/EDM for delivery in 2006 to 2007 at an estimated total cost of \$38.5 million, of which \$11.9 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.

### 3 Property and equipment

|   | March 31, 2005    |                                   |           |
|---|-------------------|-----------------------------------|-----------|
|   | Cost<br>\$        | Accumulated<br>amortization<br>\$ | Net<br>\$ |
| Automotive                                      | 6.3               | 4.7                               | 1.6       |
| Computer hardware                               | 0.3               | 0.1                               | 0.2       |
| Computer software                               | 0.2               | 0.2                               | 0.0       |
| Equipment – field                               | 23.4              | 5.5                               | 17.9      |
| Equipment – hydraulic workover rigs             | 35.9              | 6.8                               | 29.1      |
| Equipment – snubbing, air drilling and nitrogen | 42.1              | 11.3                              | 30.8      |
| Equipment – office                              | 0.2               | 0.1                               | 0.1       |
| Leasehold improvements                          | 0.4               | 0.1                               | 0.3       |
|   | 108.8             | 28.8                              | 80.0      |
|   | December 31, 2004 |                                   |           |
|   | Cost<br>\$        | Accumulated<br>amortization<br>\$ | Net<br>\$ |
| Automotive                                      | 6.5               | 4.6                               | 1.9       |
| Computer hardware                               | 0.3               | 0.1                               | 0.2       |
| Computer software                               | 0.2               | 0.2                               | -         |

# High Arctic Energy Services Trust

## Notes to Consolidated Financial Statements

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

|   |       |       |       |
|---|-------|-------|-------|
| 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   | -     | 0.2   |
| Leasehold improvements                          | 0.3   | 0.1   | 0.2   |
|   | <hr/> | <hr/> | <hr/> |
|   | 75.9  | 24.8  | 51.1  |

### 4 Rigs and equipment under construction

|   | March 31,<br>20056<br>\$ | December 31,<br>20045<br>\$ |
|---|--------------------------|-----------------------------|
| Equipment – hydraulic workover rigs             | 11.9                     | 16.5                        |
| Equipment – snubbing, air drilling and nitrogen | 4.0                      | 10.6                        |
|   | <hr/>                    | <hr/>                       |
|   | 15.9                     | 27.1                        |

During the quarter, \$14.6 million of costs in relation to hydraulic workover rigs were transferred to Property and Equipment. In addition, \$8.3 million in snubbing, air drilling, and nitrogen equipment was also completed and transferred to Property and Equipment. The Trust continues its capital build program and added \$10.0 million in costs to construct hydraulic workover rigs and an additional \$1.7 million in other equipment.

### 5 Acquisition

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.

### 6 Bank indebtedness

At March 31, 2006, the Trust had available \$50.0 million under a committed credit facility, of which \$38.1 million had been drawn (December 31, 2005 - \$13.7 million). The facility comprises a demand revolving operating line of credit, to a maximum of the lesser of \$15.0 million and 75% of Canadian accounts receivable aged less than 90 days, and a demand revolving equipment loan of \$35.0 million.

Amounts drawn at March 31, 2006 were \$13.5 million under the operating line of credit (December 31, 2005 - \$13.7 million) and \$24.6 million under the equipment loan.

The revolving operating line of credit is payable on demand and bears interest at the bank's prime rate plus 0.75% (effective rate of 6.25% at March 31, 2006 and 5.75% at December 31, 2005) and is secured by accounts receivable.

The revolving equipment loan that became effective in March 2006 is payable on demand and requires payment of interest only for the first 364 days, with the interest only payment period extendable for one year after that time at the Trust's option. It bears interest at the bank's prime rate plus 1.00% (effective rate of 6.50% at March 31, 2006).

### 7 Unitholders' capital

#### 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.

# High Arctic Energy Services Trust

## Notes to Consolidated Financial Statements

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

### Exchangeable Shares

Two series of Exchangeable Shares have been issued by a subsidiary of the Trust. 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.

|   | March 31,<br>2006 |              | December 31,<br>2005 |              |
|---|-------------------|--------------|----------------------|--------------|
|   | Units             | Amount<br>\$ | Units                | Amount<br>\$ |
| <b>Trust and LP Class A Units</b>                         |                   |              |                      |              |
| Opening balance   | 9,769,706         | 35.2         | -                    | -            |
| Issuance on the initial public offering ("IPO")           | -                 | -            | 8,000,000            | 80.0         |
| Issuance on over allotment of IPO                         | -                 | -            | 400,000              | 4.0          |
| Issuance on private placement                             | -                 | -            | 996,572              | 10.0         |
| Issuance on the purchase of Alberta Mobile Air Ltd.       | -                 | -            | 373,134              | 4.7          |
| Unit issuance costs                                       | -                 | -            | -                    | (6.8)        |
| Non-controlling interest at IPO                           | -                 | -            | -                    | (56.7)       |
| <b>Total Trust and LP Class A Units – issued</b>          | <b>35</b>         | <b>35.2</b>  | <b>35</b>            | <b>35.2</b>  |
| <b>Non-controlling interest</b>                           |                   |              |                      |              |
| Opening balance   | 15,745,453        | 52.4         | -                    | -            |
| Issuance on the IPO – Series A Exchangeable Shares        | -                 | -            | 11,460,571           | 41.6         |
| Issuance on the IPO – Series B Exchangeable Shares        | -                 | -            | 4,152,381            | 15.1         |
| Change in conversion ratio – Series B Exchangeable Shares | 86,360            | -            | 132,501              | -            |
| Non-controlling interest in net earnings                  | -                 | 5.7          | -                    | 1.1          |
| Distributions   | -                 | (3.0)        | -                    | (5.4)        |
| <b>Total non-controlling interest</b>                     | <b>15,831,813</b> | <b>55.1</b>  | <b>15,745,453</b>    | <b>52.4</b>  |
|   | <b>25,601,519</b> | <b>90.3</b>  | <b>25,515,159</b>    | <b>87.6</b>  |

### Per unit amounts

The weighted average number of units outstanding for the three months ended March 31, 2006 were 9,769,706 basic units and 25,603,647 diluted units (three months ended March 31, 2005 – 9,396,572 basic units and 25,009,524 diluted units).

## 8 Unit-based compensation plans

As an incentive for directors, management and key employees the Trust has 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 March 31, 2006, a total of 1,003,500 Unit options are exercisable up to 2010 at amounts that range from \$10.00 to \$13.87 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<br>Units | Weighted Average<br>Exercise Price<br>\$ |
|--------------------------------|--------------------|--|
| Granted                        | 991,000            | 10.36                                    |
| Exercised                      | -                  | -  |
| Forfeited                      | (50,500)           | 10.42                                    |
| <b>Total December 31, 2005</b> | <b>(50,500)</b>    | <b>10.35</b>                             |
| Granted                        | 129,500            | 12.76                                    |

# High Arctic Energy Services Trust

## Notes to Consolidated Financial Statements

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

|                             |                  |              |
|-----------------------------|------------------|--------------|
| Exercised                   | -                | -            |
| Forfeited                   | (66,500)         | 10.60        |
| <b>Total March 31, 2006</b> | <b>1,003,500</b> | <b>10.65</b> |

The Trust recognized unit-based compensation expense and contributed surplus of \$0.1 million for the period ended March 31, 2006 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 9.9%.

### 9 Related party transactions

The amount due from related parties arises from the Trust acquiring property and equipment from 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 three months ended March 31, 2006 the Trust paid premises rent and equipment and vehicle leases payments of \$0.6 million (March 31, 2005 - \$0.3 million) to companies controlled by the CEO. Outstanding net payable amounts in connection with the transactions at March 31, 2006 were \$0.4 million (March 31, 2005 - \$0.1 million). The net payable does not bear interest and is due on demand.

Included in revenues and accounts receivable for the three months ended March 31, 2006 is \$7.5 million and \$7.0 million, respectively, in relation to a contract with a company in which the CEO has an ownership interest that commenced in August 2005.

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

### 10 Commitments

The Trust has agreed to purchase seven rigs from a company in which it has a 10 per cent ownership interest for delivery in 2006 to 2007 at an estimated total cost of \$38.5 million, of which \$11.9 million is included in rigs and equipment under construction, a further \$4.5 million is estimated to be incurred in 2006 and \$22.0 million is estimated to be incurred in 2007. The Trust also holds an option to purchase an additional five rigs at an estimated cost of \$28 million.

The Trust has entered into long-term premises leases with a related party described in note 6 that expire in 2009. The leases contain an option to renew for a further five years. Future minimum lease payments as at March 31, 2006 are:

|      |            |
|------|------------|
|      | <b>\$</b>  |
| 2006 | 1.1        |
| 2007 | 1.2        |
| 2008 | 0.8        |
| 2009 | 0.5        |
|      | <u>3.6</u> |

# High Arctic Energy Services Trust

## Notes to Consolidated Financial Statements

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

### 11 Segmented information

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

|   | Three months<br>ended<br>March 31,<br>2006<br>\$ | Three months<br>ended<br>March 31,<br>2005<br>\$ |
|---|--|--|
| <b>Revenue</b>  |  |  |
| Canada  | 34.8   | 13.3   |
| International   | 3.8  | 4.8  |
|   | <hr/> 38.6                                       | <hr/> 18.1                                       |
|   | <b>March 31,<br/>2006<br/>\$</b>                 | <b>December 31,<br/>2005<br/>\$</b>              |
| <b>Property and equipment and Rigs and equipment under<br/>construction</b> |  |  |
| Canada  | 81.6   | 66.0   |
| International   | 14.3   | 12.2   |
|   | <hr/> 95.9                                       | <hr/> 78.2                                       |

### 12 Subsequent event

On April 4, 2006 the Trust announced that it had entered into agreements with a number of shareholders of Wenzel Downhole Tools Ltd. (TSX:WZL) to acquire, subject to regulatory approval, their shares in the event of any takeover bid by the Trust for the shares of Wenzel. The agreements provide that consideration for the potential acquisition of the shares would be not less than \$2.30 per share and would comprise not less than 50% cash, with any balance satisfied through the issuance of Trust units. Subject to regulatory approval, the Trust believes that the agreements cover an aggregate of 15,403,774 shares of Wenzel Downhole Tools Ltd. on a fully diluted basis, which is understood by the Trust to be more than 40% of that company's total common shares on a fully diluted basis.

### 13 Comparative figures

Certain comparative numbers have been reclassified to conform with the current period's presentation.