

High Arctic Energy Services Trust

Consolidated Balance Sheets

(\$ Million Unaudited)

	June 30, 20056 \$	December 31, 20055 \$
Assets		
Current assets		
Accounts receivable	26.5	31.8
Inventory	1.8	1.2
Prepaid expenses	1.2	0.5
Due from related parties (note 8)	0.9	0.9
	<u>30.4</u>	<u>34.4</u>
Investment (note 2)	3.0	3.0
Property and equipment (note 3)	89.1	51.1
Rigs and equipment under construction (note 4)	27.6	27.1
	<u>150.1</u>	<u>115.6</u>
Liabilities		
Current liabilities		
Operating line of credit (note 5)	14.8	13.7
Accounts payable and accrued liabilities	21.9	18.2
Revolving equipment loan (note 5)	35.0	-
Distributions payable	2.0	1.9
	<u>73.7</u>	<u>33.8</u>
Non-controlling interest	-	52.4
Unitholders' equity		
Unitholders' capital (note 6)	87.6	35.2
Contributed surplus (note 7)	0.3	0.2
Retained earnings (deficit)	5.5	(1.5)
Accumulated distributions	(17.0)	(4.5)
	<u>76.4</u>	<u>29.4</u>
	<u>150.1</u>	<u>115.6</u>

Commitments (note 9)

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)

	Three months ended		Six months ended	
	June 30, 2006 \$	June 30, 2005 \$	June 30, 2006 \$	June 30, 2005 \$
Revenue	19.8	7.4	58.4	25.4
Expenses				
Oilfield services	12.8	4.8	34.0	13.4
General and administration	4.5	1.8	8.3	3.8
Amortization	4.4	1.0	8.4	2.3
Foreign exchange loss (gain)	-	-	(0.4)	(0.7)
	<u>21.7</u>	<u>7.6</u>	<u>50.3</u>	<u>18.8</u>
Operating earnings	(1.9)	(0.2)	8.1	6.6
Interest	0.1	0.3	0.6	0.7
Pre-initial public offering management restructuring and bonus payments	-	-	-	3.7
	<u>(2.0)</u>	<u>(0.5)</u>	<u>7.5</u>	<u>2.2</u>
Net earnings (loss) before income taxes	(2.0)	(0.5)	7.5	2.2
Income taxes	0.2	-	0.5	-
	<u>(2.2)</u>	<u>(0.5)</u>	<u>7.0</u>	<u>2.2</u>
Net earnings (loss) for the period	(2.2)	(0.5)	7.0	2.2
Retained earnings (deficit) – beginning of period	2.0	0.6	(1.5)	(2.1)
Retained earnings (deficit) – retroactive adjustment (note 6)	5.7	-	-	-
	<u>7.7</u>		<u>(1.5)</u>	<u>0.1</u>
Retained earnings (deficit) – beginning of period, as restated	7.7		(1.5)	0.1
Retained earnings (deficit) – end of period	<u>5.5</u>	<u>0.1</u>	<u>5.5</u>	<u>0.1</u>
Earnings (loss) per unit - basic and diluted	<u>(0.09)</u>	<u>(0.02)</u>	<u>0.27</u>	<u>0.09</u>

See accompanying notes

High Arctic Energy Services Trust

Consolidated Statements of Cash Flows

(\$ Million - Unaudited)

	Three months ended		Six months ended	
	June 30, 2006 \$	June 30, 2005 \$	June 30, 2006 \$	June 30, 2005 \$
Cash provided by (used in):				
Operating activities				
Net earnings (loss) for the period	(2.2)	(0.5)	7.0	2.2
Add non-cash items:				
Amortization	4.4	1.0	8.4	2.3
Unit-based compensation	-	-	0.1	-
	2.2	0.5	15.5	4.5
Change in non-cash working capital balances	14.7	2.6	6.5	(0.2)
	16.6	3.1	22.0	4.3
Investing activities				
Property and equipment and rigs and equipment under construction	(25.2)	(6.3)	(46.4)	(13.3)
Change in non-cash working capital balances	3.9	(0.8)	0.8	(0.8)
	(21.0)	(7.1)	(45.6)	(14.1)
Financing activities				
Advances from (to) related parties	(0.4)	0.8	-	(0.4)
Advances from (to) a shareholder	-	(0.7)	-	1.2
Proceeds from long-term debt	-	9.9	-	15.0
Repayment of long-term debt	-	(1.1)	-	(2.5)
Unitholder distributions	(6.9)	-	(12.5)	-
Change in non-cash working capital balances	-	-	-	-
Change in bank indebtedness	11.7	(4.9)	36.1	(3.5)
	4.4	4.0	23.6	9.8
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	0.2	0.3	0.6	0.7
Income taxes	0.2	-	0.5	-

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 ("GAAP"). They follow the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2005, except as noted below, and should be read in conjunction with these statements.

The Trust has capitalized interest on the revolving equipment loan relating to rigs and equipment under construction. This policy was adapted beginning April 1, 2006 and not on a retroactive basis, as the interest on the equipment loan was not material in prior periods. Included in rigs and equipment under construction is \$0.5 million in interest.

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

2 Investment

	June 30, 20056	December 31, 20045
	\$	\$
Investment – at cost	3.0	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. Additionally, the Trust has agreed to purchase nine rigs from Sense/EDM for delivery in 2006 to 2007 (note 9).

3 Property and equipment

	June 30, 20056		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Automotive	6.6	4.9	1.7
Computer hardware	0.4	0.1	0.3
Computer software	0.3	0.2	0.1
Equipment – field	27.8	6.4	21.4
Equipment – hydraulic workover rigs	37.2	7.7	29.5
Equipment – snubbing, air drilling and nitrogen	47.4	13.0	34.4
Equipment – office	0.4	0.1	0.3
Leasehold improvements	1.5	0.1	1.4
	121.6	32.5	89.1

High Arctic Energy Services Trust

Notes to Consolidated Financial Statements

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

December 31, 20045

	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	-
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
	<u>75.9</u>	<u>24.8</u>	<u>51.1</u>

4 Rigs and equipment under construction

	June 30, 20056 \$	December 31, 20045 \$
Equipment – hydraulic workover rigs		
Opening balance	16.5	-
Construction costs added in the period	16.6	24.7
Units completed and transferred to Capital Assets	<u>(9.0)</u>	<u>(8.2)</u>
	<u>24.1</u>	<u>16.5</u>
Equipment – snubbing, air drilling and nitrogen		
Opening balance	10.6	-
Construction costs added in the period	3.2	11.5
Units completed and transferred to Capital Assets	<u>(10.3)</u>	<u>(0.9)</u>
	<u>3.5</u>	<u>10.6</u>
	<u>27.6</u>	<u>27.1</u>

5 Bank indebtedness

At June 30, 2006, the Trust had a \$50.0 million credit facility. The facility was comprised of a demand 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 demand revolving equipment loan of \$35.0 million.

Amounts drawn at June 30, 2006, were \$14.8 million under the operating line of credit (December 31, 2005 - \$13.7 million) and \$35.0 million under the equipment loan (December 31, 2005 – nil)

The revolving operating line of credit was payable on demand and bore interest at the bank's prime rate plus 0.75% (effective rate of 6.75% at June 30, 2006 and 5.75% at December 31, 2005) and was secured by accounts receivable.

The revolving equipment loan that became effective in March 2006 was payable on demand and required 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 bore interest at the bank's prime rate plus 1.00% (effective rate of 7% at June 30, 2006).

On July 5, 2006, the Trust secured financing from a syndicate of commercial lenders to replace the current credit facility.

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The credit facility is composed of a working capital revolving credit facility, due on demand, to a maximum of the lesser of \$20 million and 75% of Canadian accounts receivable aged less than 90 days. This component of the facility is secured by Canadian accounts receivable.

The credit facility also includes an equipment revolving credit facility, due on demand, to a maximum of the lesser of \$100 million and 75% of the appraised Orderly Liquidation Value of eligible equipment. This component of the facility is secured by Canadian equipment.

Both components bear interest at prime plus 0.5% to prime plus 1% depending on the aggregate amount drawn on the facility. The amortization of the facility is interest only. If the credit facility is not renewed on the anniversary date (364 days) the amount drawn is subject to a three month interest –only period, followed by a straight-line amortization period of thirty-three months.

6 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.

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.

	June 30, 2006		December 31, 2005	
	Units	Amount \$	Units	Amount \$
Trust and LP Class A Units				
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	2.7
Unit issuance costs	-	-	-	(6.8)
Allocated to Exchangeable shares	-	-	-	(56.7)
Total Trust and LP Class A Units – issued	35	35.2	35	35.2
Exchangeable Shares (Non-controlling interest as at December 31, 2005)				
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 (1)	176,619	-	132,501	-
Non-controlling interest in net earnings Distributions	-	-	-	1.1
	-	-	-	(5.4)
Total Exchangeable Shares (Non-controlling interest as at December 31, 2005)	15,922,072	52.4	15,745,453	52.4
	25,691,778	87.6	25,515,159	87.6

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(1) The series B Exchangeable Shares do not receive cash distributions. The exchange ratio of these shares is adjusted each month, on the distribution date, by an amount equal to the cash distributions converted to Trust Units based on the previous five trading days' weighted average unit price.

Per unit amounts

The weighted average number of units outstanding for the three and six months ended June 30, 2006 were 25,660,553 and 25,601,821 basic fully and diluted units (three and six months ended June 30, 2005 – 25,009,529 basic and diluted units).

At the Annual General Meeting of the Trust and the Partnership, the unitholders voted for the removal of the subordination clause attached to the LP Class B units. As a result, the attributes of the Exchangeable Shares and the presentation of these shares has changed. The Exchangeable Shares, totalling \$52.4 million, have been transferred from non-controlling interest to equity at carrying values, resulting in the elimination of the non-controlling interest. This transaction has been applied retroactive to January 1, 2006, whereby \$5.7 million has been transferred from non-controlling interest to retained earnings and accumulated distributions has been increased by \$3.0 million.

7 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 June 30, 2006, a total of 1,078,500 Unit options are exercisable up to 2010, at amounts that range from \$10.00 to \$13.57 per Unit. These options have all been 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	-	-
Forfeited	(50,500)	10.42
Total December 31, 2005	(50,500)	10.35
Granted	338,500	11.49
Exercised	-	-
Forfeited	(200,500)	10.76
Total June 30, 2006	1,078,500	11.89

The Trust recognized unit-based compensation expense and contributed surplus of \$ 0.1 million for the period ended June 30, 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 8.65%.

8 Related party transactions

In the normal course of business, during the three and six months ended June 30, 2006, the Trust paid premises rent of \$0.2 million and \$0.4 million (\$0.2 million and \$0.4 million during the three and six months ended June 30, 2005) and equipment and vehicle leases payments of \$0.2 million and \$0.4 million (nil and \$0.1 million during the three and six months ended June 30, 2005), to companies controlled by the CEO. The Trust had amounts outstanding for tenant improvements for \$0.9 million due from the above mentioned companies (December 31, 2005 - \$0.9 million).

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

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

Included in revenues for the three and six months ended June 30, 2006 is \$1.1 million and \$8.6 million in relation to a contract with a company in which the CEO has an ownership interest that commenced in August 2005. At June 30, 2006 \$1.6 million remains in accounts receivable.

9 Commitments

The Trust has entered into a contract with Sense/EDM to purchase nine additional 250K UB drilling rigs, with estimated costs to complete of \$51.1 million, which will take place in 2006 and 2007. The Trust has completed three rigs to date, with a total cost of \$18.1 million (\$9.0 million in 2006 and \$9.1 million in 2005). Also included in June 30, 2006, rigs and equipment under construction is \$16.1 million on the remaining six rigs, with an additional estimated cost of \$16.9 million to complete these rigs in 2006 and 2007. The Trust also holds an option to purchase an additional five rigs at an estimated cost of \$28.0 million.

The Trust has entered into long-term premises leases with a related party, described in note 8, that expire in 2009. The leases contain an option to renew for a further five years. Future minimum lease payments as at June 30, 2006 are:

	\$
2006	0.7
2007	1.2
2008	0.8
2009	0.5
	<u>3.2</u>

10 Segmented information

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

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	\$	\$	\$	\$
Revenue				
Canada	14.5	3.5	49.3	16.7
International	5.3	3.9	9.1	8.7
	<u>19.8</u>	<u>7.4</u>	<u>58.4</u>	<u>25.4</u>
		June 30, 2006		December 31, 2005
		\$		\$
Property and equipment and Rigs and equipment under construction				
Canada		74.3		66.0
International		42.4		12.2
		<u>116.7</u>		<u>78.2</u>

High Arctic Energy Services Trust

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

11 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.

12 Subsequent events

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 such shares (the "Tender Agreements"). The Tender Agreements provided 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 be satisfied through the issuance of Trust units. The Trust believes that the Tender 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.

On May 29, 2006, the Trust announced a combined offer of \$2.30 and \$2.75 per share for all the outstanding shares of Wenzel Downhole Tools Ltd. (TSX:WZL). The offer expired on July 18, 2006 with the minimum of outstanding shares stipulated in the offer not tendered. The Tender Agreements remain in effect until August 15, 2006.

The Trust entered into new credit arrangements as discussed in note 5.

13 Comparative figures

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