

High Arctic Energy Services Trust

Consolidated Balance Sheets

(\$ Million Unaudited)

	September 30, 2006 \$	December 31, 2005 \$
Assets		
Current assets		
Accounts receivable	35.5	31.8
Inventory	1.9	1.2
Prepaid expenses	1.1	0.5
Due from related parties (note 8)	-	0.9
	<u>38.5</u>	<u>34.4</u>
Investment (note 2)	3.0	3.0
Property and equipment (note 3)	102.3	51.1
Rigs and equipment under construction (note 4)	<u>51.5</u>	<u>27.1</u>
	<u>194.9</u>	<u>115.6</u>
Liabilities		
Current liabilities		
Operating line of credit (note 5)	10.6	13.7
Accounts payable and accrued liabilities	24.6	18.2
Due to related parties (note 8)	0.4	-
Distributions payable	<u>2.1</u>	<u>1.9</u>
	<u>37.7</u>	<u>33.8</u>
Revolving Equipment Loan (note 5)	<u>80.3</u>	<u>-</u>
	<u>118.0</u>	<u>33.8</u>
Non-controlling interest	-	52.4
Unitholders' equity		
Unitholders' capital (note 6)	88.5	35.2
Contributed surplus (note 7)	0.5	0.2
Retained earnings (deficit)	11.4	(1.5)
Accumulated distributions	<u>(23.1)</u>	<u>(4.5)</u>
	<u>77.3</u>	<u>29.4</u>
	<u>194.9</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		Nine months ended	
	September	September	September	September
	30,	30,	30,	30,
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue	27.8	25.2	86.2	50.6
Expenses				
Oilfield services	15.1	14.2	49.1	27.5
General and administration	3.4	2.8	11.7	6.6
Amortization	2.9	3.5	11.3	5.8
Foreign exchange loss (gain)	(0.2)	(0.2)	(0.6)	(0.8)
	21.2	20.3	71.5	39.1
Operating earnings	6.6	4.9	14.7	11.5
Interest	0.5	0.1	1.1	0.8
Pre-initial public offering management restructuring and bonus payments	-	10.0	-	13.7
Net earnings (loss) before income taxes	6.1	(5.2)	13.6	(3.0)
Income taxes	0.2	(0.1)	0.7	(0.1)
Net earnings (loss) for the period	5.9	(5.1)	12.9	(2.9)
Retained earnings (deficit) – beginning of period	5.5	2.5	(1.5)	0.3
Retained earnings (deficit) – end of period	11.4	(2.6)	11.4	(2.6)
Earnings (loss) per unit – basic and diluted	0.23	(0.20)	0.50	(0.12)

See accompanying notes

High Arctic Energy Services Trust

Consolidated Statements of Cash Flows

(\$ Million - Unaudited)

	Three months ended		Nine months ended	
	September	September	September	September
	30,	30,	30,	30,
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Net earnings (loss) for the period	5.9	(5.1)	12.9	(2.9)
Add non-cash items:				
Amortization	2.9	3.5	11.3	5.8
Future taxes		(0.2)		(0.1)
Unit-based compensation	0.2	0.1	0.3	0.1
	9.0	(1.7)	24.5	2.9
Change in non-cash working capital balances	(6.6)	1.1	0.4	-
	2.4	(0.6)	24.9	2.9
Investing activities				
Property and equipment and rigs and equipment under construction	(40.0)	(16.3)	(86.9)	(29.6)
Change in non-cash working capital balances	0.3	1.0	1.1	1.0
	(39.7)	(15.3)	(85.8)	(28.6)
Financing activities				
Advances from (to) related parties	1.3	(5.0)	1.3	(5.3)
Advances from (to) a shareholder	-	(8.0)	-	(6.7)
Proceeds from long-term debt	80.3		80.3	12.5
Repayment of long-term debt	(35.0)	(32.5)	-	(32.5)
Unitholder distributions	(5.1)	(1.1)	(17.6)	(1.1)
Issuance of units, net of costs	-	87.4	-	87.4
Change in operating line of credit	(4.2)	(4.6)	(3.1)	(8.1)
	37.3	36.2	60.9	46.0
Net increase in cash and cash equivalents	-	20.3	-	20.3
Cash and cash equivalents – beginning of period	-	-	-	-
Cash and cash equivalents – end of period	-	20.3	-	20.3
Supplemental information				
Cash paid for:				
Interest	0.8	0.1	1.1	0.7
Income taxes	-	-	0.5	-
Non cash transactions				
Units issued for acquisition (note 6)	-	4.7	-	4.7
Units issued for DRIP Plan (note 6)	0.9	-	0.9	-
<i>See accompanying notes</i>				

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 equipment loan relating to rigs and equipment under construction. This policy was adopted 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 \$0.9 million in the quarter and \$1.4 for the nine months ended in respect of interest.

The Trust has revised its estimate of useful life of Property and Equipment to more effectively allocate costs over the assets' useful lives. The adjusted amortization rates on a declining balance method ranges from 10% to 30%. This change has been adopted prospectively beginning July 1, 2006. The impact of this change in estimate resulted in lower amortization expense in the three months ended September 30, 2006 of \$1.6 million.

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

2 Investment

	September 30, 2006 \$	December 31, 2005 \$
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 Norwegian 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. The trust has entered into a contract related to the potential purchase of nine rigs from Sense/EDM for delivery in 2006 to 2007 (note 9).

3 Property and equipment

	September 30, 2006		
	Cost \$	Accumulated amortization \$	Net \$
Automotive	0.7	0.6	0.1
Computer hardware	0.5	0.1	0.4
Computer software	0.4	0.2	0.2
Equipment – field	31.5	6.3	25.2
Equipment – drilling rigs	11.1	0.3	10.8
Equipment – hydraulic workover rigs	42.5	9.7	32.8
Equipment – snubbing, air drilling and nitrogen	48.7	17.9	30.8
Equipment – office	0.5	0.1	0.4
Leasehold improvements	1.9	0.3	1.6
	137.8	35.5	102.3

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

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	-
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

	September 30, 2006	December 31, 2005
	\$	\$
Equipment – hydraulic workover and drilling rigs		
Opening balance	16.5	-
Construction costs added in the period	33.3	24.7
Units completed and transferred to Property and Equipment	<u>(20.0)</u>	<u>(8.2)</u>
	<u>29.8</u>	<u>16.5</u>
Equipment – snubbing, air drilling and nitrogen		
Opening balance	10.6	-
Construction costs added in the period	21.4	11.5
Units completed and transferred to Property and Equipment	<u>(10.3)</u>	<u>(0.9)</u>
	<u>21.7</u>	<u>10.6</u>
	<u>51.5</u>	<u>27.1</u>

5 Bank indebtedness

The trust has financing from a syndicate of commercial lenders. This facility is composed of a \$20 million working capital revolving credit facility and a \$100 million equipment based revolving credit facility. These facilities bear interest at prime plus 0.5% to prime plus 1% depending on the level the facility is drawn. The working capital facility is to a maximum of \$20 million and 75% of Canadian accounts receivable aged less than 90 days and is secured by Canadian accounts receivable. The equipment based revolving facility is to a maximum of \$100 million and 75% of the appraised Orderly Liquidation Value of eligible equipment. This component of the facility is secured by Canadian equipment.

At September 30, 2006, \$87.0 million of the facility had been drawn (excluding outstanding cheques) (December 31, 2005 - \$13.7 million).

The revolving operating line of credit and equipment bases facility is repayable interest only for the first 364 days. The revolving operating line of credit termination date is originally set at June 29, 2007. Thereafter, the Trust can extend the revolving credit facilities upon consent of the lenders and the Trust and if extended, the facility will require renewal 364

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days from the date of renewal. To the extent credit facilities are not renewed the amount drawn is subject to a three month interest-only payment 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.

	September 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	4.7
Units issued during the period for DRIP Plan and Options	47,010	0.9	-	-
Unit issuance costs	-	-	-	(6.8)
Allocated to Exchangeable shares	-	-	-	(56.7)
Total Trust and LP Class A Units – issued	35	36.1	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)	279,662	-	132,501	-
Non-controlling interest in net earnings	-	-	-	1.1
Distributions	-	-	-	(5.4)
Total Exchangeable Shares (Non-controlling interest as at December 31, 2005)	16,025,115	52.4	15,745,453	52.4
	25,841,831	88.5	25,515,159	87.6

- (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.

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During the quarter, the Trust introduced a Distribution Reinvestment Program ("DRIP Plan"). The DRIP Plan allows eligible unitholders of the Trust to direct that their cash distributions be reinvested in additional High Arctic trust units on the applicable distribution payment date. In adopting this plan, the Trust will reduce the amount of cash distributed to unitholders each month, as this cash will be turned back to the Trust for the issue of additional units, creating an equity financing each month. During the quarter \$0.9 million was raised under this plan.

Per unit amounts

The weighted average number of units outstanding for the three and nine months ended September 30, 2006 were 25,793,591 and 25,670,297 basic and diluted units (three and nine months ended September 30, 2005 – 25,009,529 basic and diluted units).

7 Unit-based compensation plans

The Trust has a Trust Unit Option Plan that provides incentive for directors, management and key employees that provides options to purchase Units. A total of 2,589,000 Units (10% of all outstanding units) are available for grants under the plan.

At September 30, 2006, a total of 1,487,000 Unit options are outstanding. These options expire at various dates to 2011 and are exercisable at amounts that range from \$9.80 to \$13.57 per Unit. These options have all been issued since July 21, 2005 and allow the holder to exercise 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	767,500	11.94
Exercised	(2,000)	10.00
Forfeited	(219,000)	10.89
Total September 30, 2006	1,487,000	11.69

The Trust recognized unit-based compensation expense and contributed surplus of \$ 0.2 million for the period ended September 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 11.91%.

8 Related party transactions

In the normal course of business, during the three and nine months ended September 30, 2006, the Trust paid premises rent of \$0.3 million and \$0.7 million (\$0.2 million and \$0.6 million during the three and nine months ended September 30, 2005) and equipment and vehicle leases payments of \$0.2 million and \$0.6 million (nil and \$0.1 million during the three and nine months ended September 30, 2005), to companies controlled by the CEO. The Trust had amounts payable in connection with the transactions at September 30, 2006 of \$0.4 million (December 31, 2005 - \$0.3 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.

Included in revenues for the three and nine months ended September 30, 2006 is \$6.4 million and \$15.5 million and accounts receivable includes \$7.9 million of which \$6.8 million was collected subsequent to September 30, 2006 in relation to a contract with a company in which the CEO has an ownership interest that commenced in August 2005.

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

9 Commitments

The Trust has contracted on January 15, 2006 with Sense/EDM to potentially purchase nine 250K UB drilling rigs, with estimated costs to complete of \$58.5 million, which was originally estimated to occur in 2006 and 2007. The Trust has taken delivery of 3 rigs to date, with a total cost of \$20.0 million. Also included in September 30, 2006, rigs and equipment under construction is \$24.9 million on three of the remaining six rigs, with an additional estimated cost of \$2.2 million to complete these three rigs in 2006. Based on delivery delays by Sense/EDM, the trust decided to suspend the additional 3 rigs to 2007 and will evaluate completion in 2007 based on market conditions.

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	0.3
2007	1.2
2008	0.8
2009	0.5
	<u>2.8</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		Nine months ended	
	September 30, 2006 \$	September 30, 2005 \$	September 30, 2006 \$	September 30, 2005 \$
Revenue				
Canada	21.4	20.4	70.7	37.2
International	6.4	4.8	15.5	13.4
	<u>27.8</u>	<u>25.2</u>	<u>86.2</u>	<u>50.6</u>
		September 30, 2006 \$		December 31, 2005 \$
Property and equipment and Rigs and equipment under construction				
Canada		131.9		66.0
International		21.9		12.2
		<u>153.8</u>		<u>78.2</u>

11 Comparative figures

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