

High Arctic Energy Services Trust



Annual Information Form

March 31, 2006

**For the Year Ended
December 31, 2005**

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NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Information Form (“AIF”) contains forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions are intended to identify forward-looking statements. Such statements reflect the Trust’s and High Arctic Energy’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Trust’s actual results, performance or achievements to vary from those described in this AIF. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this AIF as intended, planned, anticipated, believed, estimated or expected.

Specific forward-looking statements in this AIF include, among others, statements pertaining to the following:

- competitive advantages and ability to compete successfully;
- emphasis on cost-effectiveness of the Trust’s services and equipment;
- the timing and amount of the payment of the distributions of the Trust;
- the amount of Distributable Cash;
- estimated capital expenditure programs for fiscal 2006 and subsequent periods;
- projections of market prices and costs;
- factors upon which the Trust will decide whether or not to undertake a specific course of operational action or expansion;
- world-wide supply and demand for oilfield services;
- expectations regarding the Trust’s ability to raise capital;
- amounts to be retained by High Arctic LP for capital expenditures;
- treatment under governmental regulatory regimes;
- the ability to make accretive acquisitions;
- economic conditions; and
- commodity prices.

With respect to forward-looking statements contained in this AIF, the Trust has made assumptions regarding, among other things:

- the Trust’s ability to market successfully to current and new customers;
- the Trust’s ability to obtain equipment from suppliers;
- the Trust’s ability to construct property and equipment according to anticipated schedules and budgets;
- the impact of increasing competition;
- the Trust’s ability to obtain additional financing on satisfactory terms; and
- the Trust’s ability to attract and retain skilled employees.

The Trust’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this AIF:

- general economic conditions in Canada, the United States and the Middle East;
- the world-wide demand for oilfield services in connection with the underbalanced drilling, workover and completion of oil and gas wells;

- volatility in global market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally;
- regional and international competition;
- risks inherent in foreign operations, including political and economic risk;
- liabilities and risks, including environmental liabilities and risks, global political stability and other risks, inherent in oil and gas operations;
- sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities, and skilled personnel;
- continual success in developing and integrating technological advances and the ability to match advances of competition;
- the availability of capital;
- uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed;
- changes in legislation and the regulatory environment, including uncertainties with respect to implementing the Kyoto Protocol; and
- the other factors considered under “Risk Factors” herein.

The forward-looking statements contained in this AIF are expressly qualified in their entirety by this cautionary statement. These statements speak only as of the date of this AIF. Neither the Trust nor the General Partner intend, and do not assume any obligation, to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

NON-GAAP MEASURES

Throughout this AIF, the term “Distributable Cash” is used to refer to the amount of cash that is expected to be available for distributions to Unitholders and the term “EBITDA” is used to refer to the earnings of High Arctic before interest, taxes, depreciation and amortization. The terms Distributable Cash and EBITDA are not recognized measures under Canadian GAAP and do not have standardized meanings prescribed by GAAP. High Arctic’s method of calculation Distributable Cash and EBITDA may differ from other issuers and accordingly, Distributable Cash and EBITDA may not be comparable to similar measures presented by other issuers.

HIGH ARCTIC ENERGY SERVICES TRUST

ANNUAL INFORMATION FORM

GLOSSARY OF TERMS

“**250K CDWS Rig**” or “**250K Combination Drilling, Workover and Snubbing Rig**” means High Arctic LP’s 250K Combination Underbalanced Drilling and Workover Rig;

“**ABCA**” means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, including the regulations promulgated thereunder;

“**Administration Agreement**” means the administration agreement between the Trust and the General Partner dated June 10, 2005, as amended, supplemented and restated from time to time;

“**BOP**” means blow-out preventer, the equipment installed at the wellhead to control pressures in the annular space between the casing and drill pipe or tubing during drilling, completion and workover operations;

“**CAODC**” means the Canadian Association of Oilwell Drilling Contractors;

“**CBM**” means coal bed methane;

“**Conversion Ratio**” means the conversion ratio used to determine how many Series A Exchangeable Shares a holder of a Series B Exchangeable Share is entitled to receive upon conversion of a Series B Exchangeable Share into Series A Exchangeable Shares. The Conversion Ratio shall be equal to 1.00000 as at the date of first issue of the Exchangeable Shares and shall be cumulatively adjusted thereafter by: (a) increasing the Conversion Ratio on each Distribution Payment Date between the date of first issue of the Exchangeable Shares and the time at which the Conversion Ratio is calculated by an amount, rounded to the nearest five decimal places, equal to a fraction having as its numerator the distribution, expressed as an amount per LP Class B Unit (or, if the holder of LP Class B Units has exchanged all of its LP Class B Units for LP Class A Units, an amount per LP Class A Unit), paid on that Distribution Payment Date, multiplied by the Conversion Ratio immediately prior to the Distribution Record Date for such distribution and having as its denominator the Current Market Price of a Trust Unit on the first business day following the Distribution Record Date for such distribution; and (b) decreasing the Conversion Ratio on each dividend record date between the date of first issue of the Exchangeable Shares and the time as of which the Conversion Ratio is calculated by an amount, rounded to the nearest five decimal places, equal to a fraction having as its numerator the dividend declared on that dividend record date, expressed as an amount per Series B Exchangeable Share, and having as its denominator the Current Market Price of a Trust Unit on the date that is seven business days prior to that dividend record date;

“**Current Market Price of a Trust Unit**” means, in respect of a Trust Unit on any date, the weighted average trading price of the Trust Units on the TSX for the five (5) trading days preceding that date, provided, however, that if in the opinion of the board of directors of the General Partner the public distribution or trading activity of Trust Units for that period does not result in a weighted average trading price which reflects the fair market value of a Trust Unit, then the Current Market Price of a Trust Unit shall be determined by the board of directors of the General Partner, in good faith and in its sole discretion, and provided further that any such selection, opinion or determination by such board of directors shall be conclusive and binding;

“Declaration of Trust” means the declaration of trust establishing the Trust dated June 10, 2005, as amended, supplemented or restated from time to time;

“Distributable Cash” means for, or in respect of, any Distribution Period: (i) all cash amounts which are received by the Trust for, or in respect of, the Distribution Period, including, without limitation, interest, dividends, distributions, proceeds from the disposition of securities, returns of capital and repayments of indebtedness; plus (ii) the proceeds of any issuance of Trust Units or any other securities of the Trust, net of the expenses of issuance, and, if applicable, the use of proceeds of any such issuance for the intended purposes; less the sum of (iii) all amounts which relate to the redemption of Trust Units and which have become payable in cash by the Trust in the Distribution Period and any expenses of the Trust in the Distribution Period; and (iv) any other amounts (including taxes) required by law or the Declaration of Trust to be deducted, withheld or paid by or in respect of the Trust in such Distribution Period;

“Distribution Payment Date” in respect of a Distribution Period means on or about the date that is 15 days immediately following the end of the Distribution Period or such other date determined from time to time by the General Partner on behalf of the Trustee;

“Distribution Period” means each calendar month, or such other periods as may be determined from time to time by the General Partner on behalf of the Trustee from and including the first day thereof and to and including the last day thereof;

“Distribution Record Date” means on or about the last business day of each Distribution Period, or, if that day is not a Business Day, the next following Business Day, or such other date determined from time to time by the General Partner on behalf of the Trustee;

“DNV” means Det Norske Veritas, an international provider of services for managing risk;

“Exchange Ratio” means the exchange ratio used to determine how many Trust Units a holder of a Series A Exchangeable Share is entitled to receive, directly or indirectly, upon the exchange of such share for Trust Units from time to time. The Exchange Ratio, at any time and in respect of each Series A Exchangeable Share, shall be equal to 1.00000 unless the holder of LP Class B Units has elected to exchange all of its LP Class B Units for LP Class A Units, in which case the Exchange Ratio shall thereupon forthwith be adjusted to the lesser of 0.95 and the amount determined by the formula

$$\frac{A}{B} \times C \times 0.95$$

where:

A = the average cash distributions per LP Class B Unit paid by High Arctic LP for the 12 month period ending on the last day of the month immediately preceding the exercise of the option;

B = the amount of \$0.0875 per LP Class B Unit, being the target average monthly per unit distributions payable on the LP Units; and

C = the number of LP Class B Units exchanged for LP Class A Units;

“Exchangeable Shares” means, collectively, the Series A Exchangeable Shares and Series B Exchangeable Shares;

“ExchangeCo” means any wholly-owned subsidiary of Holding Trust, other than the General Partner, formed for the purpose of facilitating indirect exchanges of Exchangeable Shares for Trust Units;

“**Exempt Plans**” means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act;

“**General Partner**” means the managing general partner of High Arctic LP, being High Arctic Energy;

“**H₂S**” means hydrogen sulphide;

“**HAES**” means High Arctic Energy Services Inc.;

“**HAES Common Shares**” means common shares of HAES;

“**High Arctic**” means, (i) in respect of the period prior to completion of the Reorganization, HAES and its subsidiaries and their predecessors and (ii) in respect of the period following completion of the Reorganization, High Arctic LP and its subsidiaries, which acquired HAES’ business as part of the Reorganization;

“**High Arctic Energy**” means High Arctic Energy Corp.;

“**High Arctic LP**” means High Arctic Energy Services Limited Partnership;

“**Holding Trust**” means High Arctic Holding Trust;

“**Holding Trust Declaration of Trust**” means the declaration of trust to be entered into pursuant to the closing of the Initial Offering establishing Holding Trust dated July 20, 2005, as amended, supplemented or restated from time to time;

“**Holding Trust Notes**” means the unsecured, subordinated notes to be issued from time to time by Holding Trust to the Trust;

“**Holding Trust Trustee**” means High Arctic Holdings Ltd., the trustee of Holding Trust, all of the shares of which are owned by the Trust;

“**Holding Trust Units**” means trust units of Holding Trust;

“**Initial Public Offering**” means the initial public offering of the Trust Units and the concurrent listing of the Trust Units on the TSX;

“**kill fluid**” means oil, gas, water or any combination thereof that enters the borehole from a permeable formation or surface pumping equipment;

“**LP Class A Units**” means the class A limited partnership units of High Arctic LP, all of which are held by Holding Trust as the sole limited partner of High Arctic LP;

“**LP Class B Units**” means the class B partnership units of High Arctic LP, all of which are held by HAES as a general partner of High Arctic LP;

“**LP Units**” means, collectively, the LP Class A Units and the LP Class B Units;

“**N₂**” means nitrogen;

“Partnership Agreement” means the limited partnership agreement forming High Arctic LP dated July, 20, 2005;

“proppant” means granular particles mixed with fracturing fluid to hold open the formation cracks created by a fracture treatment;

“Reorganization” means the reorganization of the business of HAES by the transfer of all of the assets of HAES and High Arctic Energy to High Arctic LP, such reorganization completed July 21, 2005;

“RFD” means Rotating Flow Diverter;

“Series A Exchangeable Shares” means the Series A exchangeable shares in the capital of HAES;

“Series B Exchangeable Shares” means the Series B exchangeable shares in the capital of HAES;

“Special Voting Right” means a special voting right of the Trust deposited with the trustee under the Voting and Exchange Trust Agreement, which entitles the holders of Exchangeable Shares to such number of votes at meetings of Unitholders as is equal to the number of Trust Units (rounded down to the nearest whole number) into which the Exchangeable Shares (other than Exchangeable Shares owned by the Trust or any subsidiary of the Trust) are then, directly or indirectly, exchangeable;

“Tax Act” means the *Income Tax Act* (Canada), including the regulations thereunder;

“tripping” refers to the process of removing and/or replacing pipe from the well when it is necessary to change the bit or other piece of the drill string, or when preparing to run certain tests in the wellbore;

“Trust” means High Arctic Energy Services Trust;

“Trustee” means Valiant Trust Company;

“Trust Units” means trust units of the Trust;

“TSX” means the Toronto Stock Exchange;

“Unanimous Shareholders Agreement” means the unanimous shareholders agreement with respect to HAES among Holding Trust, the holders of Exchangeable Shares and HAES dated July 21, 2005;

“Unitholder” means a holder from time to time of the Trust Units; and

“Voting and Exchange Trust Agreement” means the voting and exchange trust agreement entered into among the Trust, High Arctic LP and Valiant Trust Company as trustee dated July 21, 2005.

Unless otherwise indicated, references herein to “\$” or “dollars” are to Canadian dollars.

CORPORATE STRUCTURE

General

The Trust is an open-ended unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Declaration of Trust. The head and principal office of the Trust is located at 8133 Edgar Industrial Close, Red Deer, Alberta, T4P 3R4.

The Trust was formed on June 10, 2005 and commenced operations on July 21, 2005 as a result of the completion of the Reorganization. Pursuant to the Reorganization, former holders of HAES Common Shares received, at their election, either Trust Units or Exchangeable Shares in exchange for their HAES Common Shares and HAES became an indirect subsidiary of the Trust.

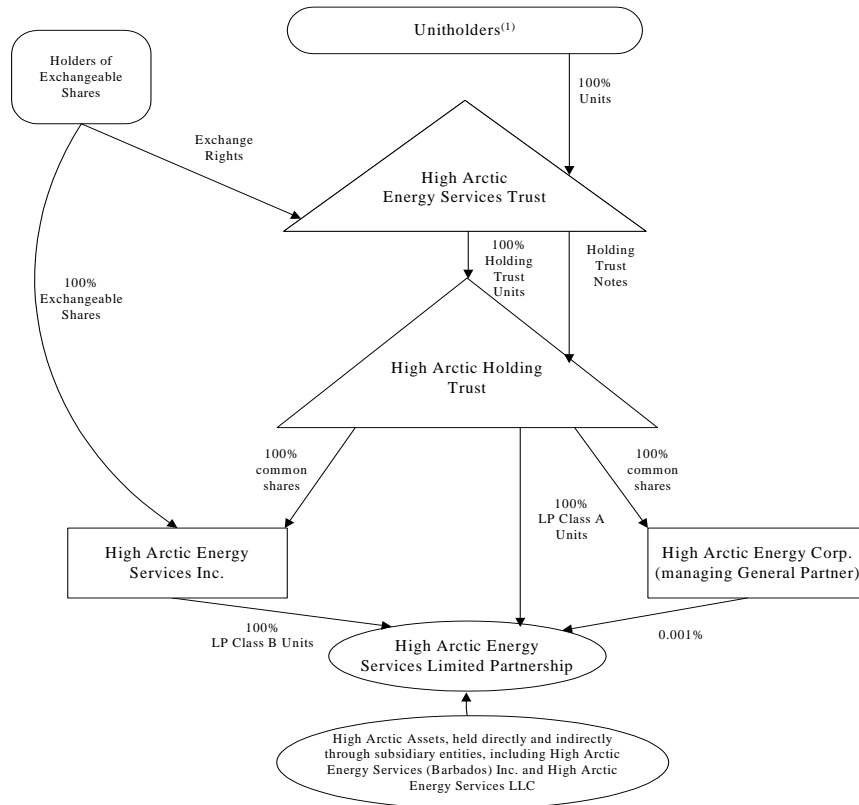
Intercorporate Relationships

The following table provides the name, the percentage of voting securities owned by the Trust and the jurisdiction of incorporation or formation of the Trust's subsidiaries, either direct or indirect, as at the date hereof.

	Percentage of Voting Securities (directly or indirectly)	Jurisdiction of Incorporation or Formation
High Arctic Holding Trust	100%	Alberta
High Arctic Energy Corp.	100%	Alberta
High Arctic Energy Services Inc.	100%	Alberta
High Arctic Energy Services Limited Partnership	100%	Alberta
High Arctic Energy Services (Barbados) Inc.	100%	Barbados
High Arctic Energy Services LLC	100%	United Arab Emirates

Organizational Structure of the Trust

The following diagram sets out the relationships among the Trust and its material subsidiaries.



Notes:

- (1) The Unitholders and holders of Exchangeable Shares own 100% of the Trust on a diluted basis.
- (2) The General Partner manages High Arctic LP pursuant to the Partnership Agreement and the officers and employees of High Arctic LP provide administrative and support services to the Trust pursuant to the Declaration of Trust and the Administration Agreement. As managing general partner, the General Partner owns a 0.001% partnership interest in High Arctic LP.

Summary Description of Business

High Arctic Energy Services Trust

The Trust was established to invest in various entities that engage in the Canadian and International oilfield services business. The Trust is administered by the General Partner.

The Declaration of Trust requires the General Partner, on behalf of the Trustee, on or before each Distribution Record Date, to declare payable to the Unitholders all or any part of the Distributable Cash for the Distribution Period which includes such Distribution Record Date. It is currently anticipated that the only income to be received by the Trust will be derived from securities of Holding Trust.

Distributions in respect of a month are paid to Unitholders of record as at the close of business on each Distribution Record Date. The distribution for any month is paid on the Distribution Payment Date.

In addition, the Declaration of Trust provides that, if necessary, on December 31 of each year, the Trust will distribute an additional amount such that the Trust will not be liable for ordinary income taxes for such year. The Trust's current policy is to distribute \$0.0875 per Trust Unit per month.

High Arctic Holding Trust

Holding Trust is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Holding Trust Declaration of Trust. The head and principal office of Holding Trust is located at 8133 Edgar Industrial Close, Red Deer, Alberta, T4P 3R4.

Holding Trust was established for the purpose of investing in the securities of the General Partner, High Arctic LP, HAES or any other subsidiary of Holding Trust and, in connection with the exchange of Exchangeable Shares, securities of ExchangeCos, and does not conduct any business activities. Holding Trust Trustee is the trustee of Holding Trust. Holding Trust is managed by management of the General Partner. The Trust is the sole unitholder of Holding Trust.

High Arctic Energy Services Limited Partnership

High Arctic LP is a limited partnership formed under the laws of Alberta. All of the assets, liabilities and businesses of HAES and High Arctic Energy were transferred to High Arctic LP pursuant to the Reorganization. HAES and the General Partner are the general partners and Holding Trust is the sole limited partner of High Arctic LP.

The principal place of business of High Arctic LP is 8133 Edgar Industrial Close, Red Deer, Alberta, T4P 3R4.

High Arctic LP'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. High Arctic's snubbing and underbalanced drilling services are primarily provided through the use of 250K Combination Drilling, Workover and Snubbing Rigs, Hydraulic Workover Rigs, Stand Alone Snubbing Systems™, Snub Fracing™ equipment, N₂/Air Pumping Services, Underbalanced Surface Recovery equipment, Rotating Flow Diverters and Rig Assist Snubbing Units.

High Arctic Energy Services Inc.

HAES was incorporated under the ABCA as 589788 Alberta Ltd. on December 2, 1993. In 2003, HAES completed an internal reorganization of its operations pursuant to which it amalgamated with certain of its wholly-owned subsidiaries and on December 21, 1993 HAES filed Articles of Amendment, changing its name to "High Arctic Well Control Inc." On April 27, 2004 HAES filed Articles of Amendment changing its name to "High Arctic Energy Services Inc.". In connection with the Reorganization, all of the assets, liabilities and businesses of HAES were transferred to High Arctic LP.

The head and principal domestic offices of HAES are located at 8133 Edgar Industrial Close, Red Deer, Alberta, T4P 3R4. The registered office of HAES is located at 600, 4911 – 51 Street, Red Deer, Alberta, T4N 6V4.

Other Subsidiaries

High Arctic LP currently has two wholly-owned subsidiaries, High Arctic Energy Services (Barbados) Inc., organized in Barbados, and High Arctic Energy Services LLC, organized in Dubai,

United Arab Emirates. High Arctic Energy Services LLC's principal office in Dubai is located at Jadaf DY, Shed 121, Dubai, United Arab Emirates. This office manages High Arctic's fleet of Hydraulic Workover Rigs and Rig Assist Snubbing Units, Underbalanced Surface Recovery equipment, international marketing and project management, as well as the international safety services division. The registered office in Barbados is located at Braemar Court, Suite 200, Deighton Road, St. Michael, Barbados, W. I. High Arctic LP also has an operations base in Cheleken, Turkmenistan.

GENERAL DEVELOPMENT OF THE BUSINESS

General

High Arctic'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. High Arctic's snubbing and underbalanced drilling services are primarily provided through the use of 250K CDWS Rigs, Hydraulic Workover Rigs, Stand Alone Snubbing Systems™, Snub Fracing™ equipment, N₂/Air Pumping Services, Underbalanced Surface Recovery equipment, Rotating Flow Diverters and Rig Assist Snubbing Units.

High Arctic's head office is located in Red Deer, Alberta with additional Alberta offices located in Brooks, Grande Prairie and Calgary. International offices are located in Dubai, United Arab Emirates and Bridgetown, Barbados.

High Arctic currently has two operating divisions, Domestic and International, which offer the following products and services:

250K Combination Drilling, Workover and Snubbing Rigs

Hydraulic Workover Rigs

Rig Assist Snubbing

Stand Alone Snubbing Systems™

Snub Fracing™

N₂/Air Pumping Services

Underbalanced Surface Recovery

Underbalanced Tool Rentals

Rotating Flow Diverters

Heating Packages

Integrated Project Management

International Safety Services

History

Since its inception, High Arctic's focus has been on growth and development. In the early to mid 1990s, growth was achieved through the acquisition of smaller companies. More recently, High Arctic's expansion has primarily been through the introduction of new technology. The current focus of High Arctic is on structured growth and the development of new underbalanced technology for its diversified product lines.

In 2003, High Arctic introduced and implemented use of “The Viking”, the world’s first Electric Hydraulic Workover Rig (“HWR”) of its kind, designed for gas cavern workover programs. As well, High Arctic shifted its International market focus to the Middle East and Caspian Sea regions and hired an International representative, believing that International opportunities were available for Canadian companies that could supply new, state of the art underbalanced equipment and services. “The Banff”, High Arctic’s largest HWR, was built in Alberta and transported to Dubai, United Arab Emirates, operating under a two-year contract. As additional equipment and manpower were required to satisfy its new International customer base, High Arctic set up a manufacturing facility in Dubai that has continued to grow. “The Cadomin” was constructed entirely in its Dubai manufacturing facility. This HWR was designed to be modular in design, affording accessibility to small offshore platforms, and requiring substantially smaller marine support vessels.

N₂ and Air Pumping, Underbalanced Surface Recovery, Rotating Flow Diverter and 250K CDWS Rig services were added to High Arctic’s product lines in the first quarter of 2005 completing High Arctic’s transition from a well control company to an underbalanced service provider. A substantially larger corporate facility in Red Deer, Alberta was leased in 2004 to provide space for High Arctic’s fleet, training facility and training wells used by its training program.

In July 2005, the Trust completed the Reorganization and Initial Public Offering. Pursuant to the Initial Public Offering, 8,400,000 Trust Units were issued at a price of \$10.00 per unit for gross proceeds of \$84,000,000. The Initial Public Offering was led by Canaccord Capital Corporation and included Sprott Securities Inc., Lightyear Capital Inc., J.F. Mackie & Company Ltd., Haywood Securities Inc. and Wellington West Capital Markets Inc.

On September 1, 2005, High Arctic LP acquired all of the assets of Alberta Mobile Air Services 1998 Inc. (“AMA”), an Edmonton-based private oilfield service company for aggregate consideration of \$8.3 million. These assets consist of equipment used to provide portable compression services to the drilling and pipeline industries, including underbalanced drilling with air-generated N₂ from skid-mounted units and the purging and air drying of pipelines. The \$8.3 million purchase price was comprised of \$3.6 million in cash and the issuance of 373,134 Trust Units for \$4.7 million.

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 has been expended to December 31, 2005. The Trust also holds an option to purchase five rigs at an estimated cost of \$28 million.

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.

Significant Acquisitions and Dispositions

Other than the Reorganization, there have been no significant business acquisitions or dispositions during the last fiscal year.

BUSINESS OF THE TRUST

General

The Trust's principal undertaking, through its direct and indirect wholly-owned subsidiaries 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. High Arctic's underbalanced drilling and snubbing services are primarily provided through the use of 250K CDWS Rigs, Hydraulic Workover Rigs, Stand Alone Snubbing Systems™, Snub Fracing™ equipment, Rotating Flow Diverters, Rig Assist Snubbing Units, N₂ Pumping Services and Surface Recovery equipment.

Underbalanced drilling refers to the practice of intentionally drilling a well with borehole pressure less than the formation pore pressure, thus allowing formation fluid to more freely flow into the wellbore. Specialized well control equipment is used by the energy services sector to induce and control the formation fluid influx at the surface during drilling or workover operations. A snubbing unit in conjunction with a Rotating Flow Diverter are the essential pieces of equipment making this process possible.

Underbalanced drilling has become an important technology in the Canadian oil and gas sector, especially in low pressure formations and shallow gas wells. By not introducing drilling fluids which typically invade the formation, underbalanced drilling reduces, if not eliminates, mechanical damage and chemical damage to the producing formation, both of which restrict oil or gas to flow into the wellbore. The dramatic reduction of formation damage, especially in low pressure reservoirs like CBM and shallow gas is the key advantage of underbalanced drilling. In addition, underbalanced drilling provides the ability to produce smaller reservoirs that were not economical to drill in a traditional overbalanced manner due to production losses and formation damage associated with this manner of drilling. Formation damage refers to a restriction which reduces the ability of the reservoir oil or gas fluids to flow into the wellbore. When formation damage occurs while drilling overbalanced, there are a number of stimulation techniques that are available for overcoming flow impairment into the wellbore. These stimulation techniques work well with vertical wells regardless of depth or shallow damage in horizontal wells, however, deeper matrix damage is often difficult to remove in long horizontal sections and stimulation techniques are prohibitively expensive.

Underbalanced well operations, drilling and/or workovers cannot successfully be conducted without the use of snubbing equipment. Snubbing is the process of moving tubing and drill pipe into and out of a wellbore under pressure. When the surface pressure and tubing/drill string are such that, if unrestrained, the pipe would be ejected from the well, moving the pipe is referred to as "snubbing". The ability for the producing formation to flow in a continuous pressure-controlled environment is a significant advantage in successfully addressing common production problems in fluid sensitive formations, low pressure reservoirs, naturally fractured reservoirs and low permeability sandstone reservoirs. In such formations and reservoirs, snubbing offers the proven ability to enhance operational and economic performance of low-pressure gas wells which may not be able to produce gas as a result of kill fluid over-pressurization or, deep gas well workovers where sandstone formation clays are susceptible to swelling.

Snubbing operations also offer the ability to maintain production during part or all of well service work, increase well production rates, reduce completion costs and eliminate fluid purchase, well remediation and disposal costs.

The use of a Rotating Flow Diverter during drilling operations in conjunction with a snubbing unit allows for the pulling of pipe safely while the well is flowing, permitting the replacement of a downhole motor or tool assemblies. Without the RFD/snubbing rig combination, the well would have to be killed with fluids to offset the formation pressure, which would risk contaminating the formation with mechanical and/or chemical damage.

Domestic and International Services

High Arctic currently has two segmented operating divisions, domestic (“Domestic”) and international (“International”). These Domestic and International divisions accounted for 77.6% and 22.4%, respectively, of consolidated revenue for the year ended December 31, 2005 and 63.9% and 36.1%, respectively, of consolidated revenue for the seven-months ended December 31, 2004. Consolidated revenue for the year-ended December 31, 2005, the seven-months ended December 31, 2004 and the year ended May 31, 2004 was \$82.7 million, \$29.1 million and \$36.4 million, respectively.

Domestic Services

Within the Domestic division, High Arctic has the following product lines and services which it provides to its customers in the operating areas of Alberta, Northern British Columbia, the Northwest Territories and Yukon Territory:

250K Combination Drilling, Workover and Snubbing Rigs	Underbalanced Surface Recovery
Hydraulic Workover Rigs	Underbalanced Tool Rentals
Rig Assist Snubbing	Rotating Flow Diverters
Stand Alone Snubbing Systems™	Heating Packages
Snub Fracing™	Integrated Project Management
N ₂ /Air Pumping Services	

High Arctic has developed a number of new product lines that allow its Canadian customers to utilize High Arctic as a single source for underbalanced drilling, workover and completion services. Consolidating underbalanced services within a single service provider results in reduced overall well costs and greater consistency of performance. Currently, customer demand for underbalanced drilling, workover and completion services during peak activity levels exceeds High Arctic’s fleet of equipment. When required to meet customer demand, High Arctic contracts for equipment from third party suppliers. However, High Arctic’s expansion plans include the construction of additional equipment in order to position High Arctic to directly meet customer demand in the future.

International Services

Within the International division, High Arctic has the following product lines which it provides to its current and prospective customers in the current operating areas of Turkmenistan, Armenia, Ukraine, Yemen, Iran, Saudi Arabia, United Arab Emirates, Tanzania, Democratic Republic of Congo, Thailand and Papua New Guinea:

Hydraulic Workover Rigs	International Safety Services
Rig Assist Snubbing Units	N ₂ /Air Pumping Services
Underbalanced Surface Recovery	Integrated Project Management
Underbalanced Tool Rentals	

High Arctic has begun to replicate its domestic bundling of services in its operations in the Middle East. The International market is an emerging market and the International division is a relatively

new division for High Arctic, which accounts for the limited services being provided in the Middle East at this time. In the future, management anticipates providing additional product lines to its International operations.

Description of Services

250K Combination Drilling, Workover and Snubbing Rig

High Arctic's primary focus is using underbalanced technology as a production enhancement service. The 250K CDWS Rig is the second generation to the Stand Alone Snubbing System™ technology introduced by High Arctic in 1997. The 250K CDWS Rig was primarily designed to underbalance drill, workover, complete and snub new and existing well bores to a depth of 3,500 metres. The 250K CDWS Rig is primarily a mobile, land-based rig that rigs up faster, trips faster and moves more efficiently than the HWR described below.

High Arctic's underbalanced drilling division is in its development phase and is intended to operate the specially adapted 250K CDWS Rig complete with surface components for underbalanced drilling. The underbalanced drilling division's primary focus will be to economically supply complete underbalanced drilling systems for the drilling of horizontal wells in Northern British Columbia and Alberta. As at December 31, 2005, one 250K CDWS Rig had been delivered to High Arctic and was in service.

The 250K CDWS Rig is a specialized "derrick-type" rig that can lift 250,000 pounds as a conventional workover rig but also acts as a conventional 120,000-pound snubbing unit. The 250K CDWS Rig is a self-contained unit capable of all underbalanced drilling, workover and snubbing operations that are currently being conducted with the conventional Stand Alone Snubbing System™, but operating at greater depths. The 250K CDWS Rig has automated controls that reduce the opportunity for human error, eliminate third party charges and allow for open hole drilling, side tracking or fishing operations. The unit has an automated tripping procedure, thus safely increasing the speed at which the drill string is inserted or removed. With a 24 metre mast, the 250K CDWS Rig allows for a number of BOP configurations to be added, while maintaining standard drilling and tripping capabilities. The simple and quick installation of BOPs reduces rig set-up time and its associated costs and increases safety for employees. The 250K CDWS Rig has a smaller footprint than conventional service rigs allowing drilling in tighter locations and providing minimal land disturbance. In addition, the 250K CDWS Rig is more mobile and has a faster rig set-up time than the larger Hydraulic Workover Rigs.

Hydraulic Workover Rigs

HWRs are capable of the majority of workovers, completions, re-entries, abandonment and snubbing operations that are currently being conducted with conventional drawwork type service rigs. The HWR moves the tubular components in and out of the wellbore using hydraulic rams and slip assemblies. The HWR is capable of working on deeper wells (up to 5,000 metres) with higher pressure than the 250K CDWS Rig.

The HWR is primarily used in remote locations, equipment areas with spacing limitations and offshore applications as its mobilization is efficient and cost effective compared to a conventional service rig. HWRs allow all workover and snubbing operations to be conducted within a small equipment footprint. These rigs are capable of independently lifting a pipe string of up to 460,000 pounds, with added snubbing capabilities of 230,000 pounds. The tripping time, while in an overbalanced state, is comparable to conventional drawwork type rigs. During underbalanced operations there is no need to mobilize additional well control support equipment.

HWRs can function efficiently on conventional well operations (typically used in the International market) as well as in all types of underbalanced scenarios (typically used in the Canadian market). Using HWRs in a snubbing operation eliminates the costs of kill fluid and reduces costs of pumping equipment. With less drilling fluid induced formation damage, cleaner, more enhanced production can be achieved.

Rig Assist Snubbing

The High Arctic Rig Assist Snubbing Unit is a truck mounted hydraulic system that can be used on most well servicing and drilling rigs. The Rig Assist Snubbing Unit works in conjunction with the other services on location to manage the well while it is underbalanced. The system function is to run and/or remove pipe with hydraulic rams at a reasonable rate during underbalanced well conditions. Since the Rig Assist Snubbing Unit is a modular unit, it can be rigged up in as little as one hour. The Rig Assist Snubbing Unit is typically contracted on a day-to-day call out basis to snub assist a workover rig in underbalanced operations as requested by a customer. Two employees drive the Rig Assist Snubbing Unit to the location and rig it on to the well to assist the workover rig in the movement of tubing under pressure (snubbing).

Stand Alone Snubbing Systems

The Stand Alone Snubbing System™ was designed and developed by High Arctic in 1998 primarily to provide an economical means of assisting in the completion of shallow gas wells. This unique system has continued to develop with the introduction of a larger capacity pump, Class III BOP systems and flow recovery equipment. This system is capable of tripping tubing in excess of 3,500 meters with an average trip time of one joint per minute and a lifting capability of 120,000 pounds. The equipment that accompanies this rigless snubbing system conforms to all government requirements regarding spacing, well kill and BOP regulations. The Stand Alone Snubbing System™ allows wells to be completed while eliminating the use of a conventional service rig and rig assist combination by providing all self-contained support equipment required for its operation. High Arctic has developed a load management system that allows work to be conducted on the wellbore without the transfer of extra weight to the wellhead, zero ground disturbances and also enables the Stand Along Snubbing System™ to be free standing.

Snub Fracing™

High Arctic's combined package of the Stand Along Snubbing System™ and specialized downhole tools, referred to as Snub Fracing™, eliminates (i) the requirement for well preparation with a service rig and (ii) the risk of introducing damaging kill fluid into a newly stimulated formation when installing final production string. Snub Fracing™ is the enhancement of economic efficiency in wells that require multi-stage fracture stimulation in conjunction with the Stand Along Snubbing System™.

Snub Fracing™ packages allow for selective proppant placement and stimulation of multi-marginal zones at nominal additional operating costs. This type of application is also used to treat single by-passed pay zones in a multi-zone wellbore. High Arctic has developed a set of selective Snub Fracing™ tools that are used in conjunction with a downhole shut in valve which can be mechanically opened and closed while consistently operating under adverse frac conditions.

Snub Fracing™ can provide significant cost savings where multiple zones are present, allowing for commingling of multiple-producing zones or where there is a need to develop a previously by-passed zone. These savings are realized by reducing the number of trips into the wellbore, decreasing mobilization and set up costs of fracturing equipment and reducing tubing preparation time. Stand Alone

Snub Fracing™ also eliminates the need for additional tools, including a workover rig, bridge plugs, frac packers and wellhead isolation tools. Shorter well completion periods and accelerated production result in shortened payback periods for well operators.

N₂/Air Pumping Services

N₂ services are provided through the use of High Arctic's N₂/Air Pumping Services. The N₂ Pumping Unit is a heat recovery N₂ system used in land and offshore applications worldwide. N₂ is used in place of air whenever risk hazard assessment dictates. N₂ is an inert gas that is non-corrosive and non-explosive. It is ideal for industrial type applications for purging pipelines, pressure testing vessels and facilitating withdrawal of stored liquids from vessels. N₂'s uses in the oil and gas industry are vast, dealing with all service lines and used principally in applications supporting underbalanced operations. N₂ is added to acid blends to provide additional energy to assist in the clean out of unwanted materials and sediments in order to enhance well flow rates. N₂ is also added to water and hydrocarbons when fracing to assist formations in clean up with low bottom hole pressures. N₂ is particularly useful for what it does not do when used in underbalanced drilling, as it does not react negatively with most materials, making it a safe way to complete the job. N₂ is often pumped into the well bore related to the underbalanced work to safely improve the recovery of introduced or produced fluids, while reducing the potential for damaging the formation.

The N₂ Bulker is a mounted storage tank on a trailer frame consisting of a rear enclosure for a transfer pump and all necessary manifold piping with valves. The tractor towing unit has a hydraulic wet kit to power the transfer pump and controls for normal operations.

Underbalanced Tool Rentals

High Arctic, through its Underbalanced Tool Rentals, supplies the oil and gas industry with specialty equipment including high pressure BOPs, drilling manifolds, accumulator units, flanges, adapters, spools and overhead handling equipment. High Arctic concentrates on specialized rental equipment that will be used in underbalanced operations. High Arctic certifies all of its equipment to recognized industry regulation and recommended practices, as applicable, including federal and provincial occupational health and safety codes, the API, Canadian Industry Recommended Practices of the Canadian Petroleum Safety Council, the National Association of Corrosion Engineers, Canadian Standards Association and the CAODC.

Underbalanced Surface Recovery

In the fourth quarter of 2005, High Arctic introduced a dual purpose separator for the separation of formation fluids; an underbalanced drilling separator and a managed control pressure drilling separator. High Arctic has a license agreement covering Canada and the Middle East with the patent applicant for both patents on the separator and the process. Management expects this dual purpose process will reduce separation costs from the current four phase horizontal underbalanced drilling separators. This new separator has also increased demand for High Arctic's Rotating Flow Diverter.

High Arctic's vessel is a vertical separator that can be utilized for all facets of underbalanced drilling and to manage control pressure drilling. The vessel is seven feet in diameter and over 18 feet tall, allowing larger gas and liquid handling capacities. The design calls for a pressure vessel rating of 125 pounds per square inch gauge (psig) and has a capacity of handling up to 65 million standard cubic feet of gas per day and 32,000 barrels of fluid per day at atmospheric operating conditions. The system also improves hydrocarbon handling capabilities in standard drilling applications.

Rotating Flow Diverters

High Arctic's Rotating Flow Diverters provide a safe and economical means of diverting flow or pressured gas or fluid to a surface recovery system during underbalanced drilling applications. High Arctic's RFD offers an advantage not available from existing rotating flow diverters in the industry. The unique design eliminates the need for external cooling and lubrication, and is DNV certified to operate throughout the world. The body is cast ductile design, meets all API specifications and can be used in H₂S drilling applications.

Integrated Project Management

The Trust has increased its line of services by introducing the "bundling concept" to its business model. This concept is intended to increase utilization of equipment, provide additional revenue per job site and enable the Trust to combine product and service lines to the same customer and well site. As a component of this bundling concept, the Trust has instituted a comprehensive service wherein equipment, personnel and management expertise are bundled together and provided to customers as a well-site management package. The Trust refers to this holistic approach as "Integrated Project Management" or "IPM". Integrated Project Management allows the Trust to deploy all required services which are within High Arctic's product line, as well as collect a management fee through the coordination of any required third-party services on a cost-plus basis.

Other Services

To enhance or assist in underbalanced operations, High Arctic also provides additional surface rental equipment to its customers such as heating packages, BOP accumulator systems, circulating kits and generating systems. High Arctic also provides separate well management and technical support to enhance or assist an underbalanced operation.

Oilfield Technical Support and Training

Through its training program developed in 2001, High Arctic provides its employees with a wide range of in-house technical support and training relating to downhole operations and snubbing units. High Arctic has a fully-operational training well with derrick, snubbing unit and 120 metre wellbore at its facility in Red Deer, Alberta. The training well is pressurized and simulates an actual wellsite. Four full-time certified trainers administer the training program. The training program exceeds all government certification requirements, combines classroom work and practical experience and covers topics including packers, downhole tools, snubbing, slick line operations and procedures and fishing tool operations. There are six competency levels in the training program, all of which relate to different aspects of working with downhole operations and snubbing units.

Research and Development

High Arctic spends significant resources on research and development to create innovative new technology for its diversified product lines. High Arctic's research and development efforts are focused on providing specific solutions to the challenges experienced by oil and gas exploration and production companies when drilling for oil and gas.

High Arctic presently holds, or is in the process of obtaining, four patents or licenses for equipment design relating to underbalanced drilling and has registered trademarks for its Snub Fracing[™] and Stand Alone Snubbing System[™]. See "Risk Factors – Proprietary Technology".

Equipment and Expansion Plans

The following chart sets forth a list of High Arctic's existing major equipment as at December 31, 2005 and the additional equipment that High Arctic has contracts in place to build in fiscal 2006:

Type of Equipment	Units Currently Owned	Units to be Built
250K CDWS Rig	2	9 ⁽¹⁾
HWR	4	-
Rig Assist Snubbing Unit	11	-
Stand Alone Snubbing System™	12	2
N ₂ /Air Pumping Unit	10	4
Nitrogen Bulker	2	1
Surface Recovery System	6	4
RFD	6	12
Air/N ₂ UBD Drilling Systems	6	2

Note: (1) In addition to these units, the Trust holds an option to purchase an additional five rigs

Employees

As at December 31, 2005, HAES had approximately 280 employees and contractors in Canada and approximately 100 employees and contractors Internationally.

Competitive Conditions

High Arctic provides oilfield services primarily to the field operation locations of oil and gas exploration and production companies that are located in western Canada and in various foreign countries. The oilfield service business in which High Arctic operates is highly competitive and in order to be successful, High Arctic must provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which High Arctic operates are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience and reputation for safety and price. Competitors offer similar services in all geographic regions in which High Arctic operates. See "Risk Factors – Competition".

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. On a monthly basis, drilling activity varies greatly. The annual drilling cycle can generally be viewed in four components:

- Mid-March through mid-May – spring break-up; the northern drilling locations thaw and southern lands become impractical for travel due to wet road conditions. Drilling activity is generally low with companies planning the summer drilling season.
- Mid-May through mid-October – summer and fall drilling season; generally focused on non-northern areas that are accessible in the summer; summer drilling activity is medium to strong.
- Mid-October to mid-November – switchover to winter drilling season; characterized by lighter drilling activity when many companies are moving off summer drilling locations and preparing winter drilling leases for delivery of equipment.

- Mid-November through mid-March – winter drilling season; this is the period when the majority of rig activity takes place and exploration companies take advantage of the frozen landscape to access northern winter drilling locations.

High Arctic operates at high utilization rates relative to the majority of its competitors. As a result, High Arctic's inability to operate during any period has a higher impact on the results of its operations compared to some of its competitors who are in a position to deploy additional, potentially idle, equipment in the face of "catch-up" demand after the adverse operating conditions have subsided. High Arctic has spread some of this risk through its International operations. High Arctic's International operations are not as dependent on weather and do not have the same seasonality constraints as the Canadian market. See "Risk Factors – Seasonality".

Customers

High Arctic has over 400 customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, High Arctic has two significant customers representing approximately 42% of its revenue for the year ended December 31, 2005. The first significant customer is a major Canadian exploration and production company to whom a full range of the Trust's services are provided. The services provided to this customer are distributed within this customer's diverse locations of operations, which management believes limits the risk of concentrating a significant portion of its revenue on this customer. Services are provided to the second significant customer, a related-party, pursuant to the terms of a 36-month IPM contract High Arctic entered into in August 2005. See "Directors and Officers - Conflicts of Interest".

Reorganizations

HAES completed the Reorganization on July 21, 2005. Pursuant to the Reorganization, all of the assets of HAES and High Arctic Energy were transferred to High Arctic LP, and former holders of HAES Common Shares, received, at their election, either Trust Units or Exchangeable Shares in exchange for their HAES Common Shares and HAES became an indirect subsidiary of the Trust. Concurrent with the Reorganization, the Trust Units were offered for sale to the public and were listed and began trading on the TSX.

RISK FACTORS

The business and operations of the Trust are subject to various risks as set forth elsewhere in the AIF and below. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF.

Risks Relating to the Business

Volatility of Industry Conditions

The demand, pricing and terms for oilfield services largely depend upon the level of industry activity for oil and natural gas exploration and development. Industry conditions are influenced by numerous factors over which High Arctic has no control, including: the level of oil and gas prices; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining current production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; worldwide weather conditions; global

political, military, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing.

The level of activity in the oil and gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and gas production activities will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and gas production levels and therefore affect the demand for services to oil and gas customers. A material decline in oil or gas prices or industry activity in any of the areas in which High Arctic operates could have a material adverse effect on High Arctic's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oilfield services. The duration of this period will have a direct impact on the level of High Arctic's activities. Spring break-up occurs earlier in the year in south-eastern Alberta than it does in northern Alberta and British Columbia. The timing and duration of spring break-up is dependant on weather patterns but it generally occurs in April and May. Additionally, if an unseasonably warm winter prevents sufficient freezing, High Arctic may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The demand for oilfield services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on High Arctic's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Government Regulation

The operations of High Arctic are subject to a variety of federal, provincial and local laws of Canada and foreign laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. High Arctic invests financial and managerial resources to ensure such compliance and will continue to do so in the future. Although such expenditures historically have not been material to High Arctic, such laws or regulations are subject to change. Accordingly, it is impossible for High Arctic to predict the cost or impact of such laws and regulations on its future operations.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those required under the *Climate Change and Emissions Management Act* (Alberta), may require the reduction of emissions or emissions intensity from the Trust's operations and facilities. Mandatory emissions reductions may result in increased operating costs and

capital expenditures for oil and gas producers, thereby decreasing the demand for High Arctic's services. The mandatory emissions reductions may also impair High Arctic's ability to provide its services economically. Management is unable to predict the impact of the Kyoto Protocol on High Arctic and it is possible that it will adversely affect High Arctic's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Operating Risks and Insurance

High Arctic's operations are subject to hazards inherent in the oil and gas industry, such as equipment defects, malfunction and failures, and natural disasters which result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. These risks could expose High Arctic to substantial liability for personal injury, wrongful death, property damage, loss of oil and gas production, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

High Arctic continuously monitors its activities for quality control and safety. However, there are no assurances that High Arctic's safety procedures will always prevent such damages. Although High Arctic maintains insurance coverage that it believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover High Arctic's liabilities. In addition, there can be no assurance that High Arctic will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by High Arctic, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on High Arctic's ability to conduct normal business operations and on its financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Agreements and Contracts

The business operations of High Arctic depend on successful execution of performance-based contracts, many of which are oral agreements. The key factors which determine whether a client continues to use High Arctic are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, reputation for safety and competitive price. There can be no assurance that High Arctic's relationship with its customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on High Arctic's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Key Personnel

The successful operation of High Arctic's business depends upon the abilities, expertise, judgment, discretion, integrity and good faith of its executive officers, general managers, employees and consultants. In addition, the ability of High Arctic to expand its services will depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees is high, and the supply is limited. The unexpected loss of High Arctic's key personnel or the inability to retain or recruit skilled personnel could have a material adverse effect on the Trust's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Competition

As disclosed elsewhere in this AIF, High Arctic provides oilfield services primarily to the field operation locations of oil and gas exploration and production companies. The oilfield service business in which High Arctic operates is highly competitive. To be successful, High Arctic must provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which High Arctic operates are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience and reputation for safety and price. High Arctic competes with several regional and international competitors that are both smaller and larger than it is. These competitors offer similar services in all geographic areas in which High Arctic operates. As a result of competition, High Arctic may be viable to continue to provide its present services or to acquire additional business opportunities, which may affect High Arctic's business, financial condition, results of operations and cash flows, and therefore on the distributable income to be distributed to Unitholders.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to High Arctic. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an effect upon High Arctic's ability to generate revenue and earnings.

Credit Risk

A substantial portion of High Arctic's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. Collection of these receivables could be influenced by economic factors affecting the oil and gas industry.

Variations in Foreign Exchange Rates

High Arctic's expenditures for equipment manufactured in Dubai are denominated in Arab Emirates Dirham ("AED") dollars and certain other expenditures for equipment are denominated in United States dollars. These expenditures are therefore directly affected by the Canadian/AED dollar and Canadian/United States dollar exchange rates, which fluctuate over time. A material decrease in the value of the Canadian dollar may negatively impact High Arctic's net revenue.

Foreign Operations

High Arctic's international operations are subject to special risks inherent in doing business outside of Canada. These risks can involve matters arising out of the policies of foreign governments, imposition of special taxes or similar charges by government bodies, foreign exchange fluctuations and controls, civil disturbances and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuation, taxation and new laws or policies as well as by laws and policies of Canada affecting foreign trade, investment and taxation. Furthermore, it is important that High Arctic maintain good relationships with the governments in certain of the countries in which it operates. High Arctic may not be able to maintain such relationships if the governments of these countries change. Certain regions in which High Arctic may conduct operations have been subject to political and economic instability. High Arctic's operations are subject to government legislation, policies and controls relating to environmental protection, taxes and labour standards.

Since High Arctic derives a portion of its revenues from its subsidiaries outside Canada, the payment of dividends or the making of other cash payments or advances by these subsidiaries to High Arctic may be subject to restrictions or controls on the transfer of funds in or out of these countries or result in the imposition of taxes on such payments or advances. In addition, since High Arctic's foreign operations are governed by foreign laws, in the event of a dispute, High Arctic may be subject to the exclusive jurisdiction of foreign courts and the application of foreign laws, or may not be successful in subjecting foreign persons to the jurisdiction of Canadian courts.

Sources, Pricing and Availability of Equipment and Equipment Parts

High Arctic sources its equipment and equipment parts from a variety of suppliers, most of which are located in Canada, the United States and Norway. Should any suppliers of High Arctic be unable to provide the necessary equipment or parts or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on High Arctic's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Proprietary Technology

The success and ability of High Arctic to compete depends in part on the proprietary technology of High Arctic and its subsidiaries, proprietary technology of third parties that has been, or is required to be, licensed by High Arctic and its subsidiaries and the ability of High Arctic and such third parties to prevent others from copying such proprietary technologies. High Arctic currently relies on intellectual property rights and other contractual or proprietary rights, including (without limitation) copyright, trademark laws, trade secrets, confidentiality procedures, contractual provisions, licenses and patents, to protect its proprietary technology; and on third parties from whom licenses have been received to protect their proprietary technology. High Arctic may have to engage in litigation in order to protect its patents or other intellectual property rights, or to determine the validity or scope of the proprietary rights of others. This kind of litigation can be time-consuming and expensive, regardless of whether or not High Arctic is successful. The process of seeking patent protection can itself be long and expensive, and there can be no assurance that any patent applications of High Arctic and its subsidiaries or such third parties will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to High Arctic. Furthermore, others may develop technologies that are similar or superior to the technology of the Trust or such third parties or design around the patents owned by High Arctic, its subsidiaries and/or such third parties.

Despite the efforts of High Arctic or such third parties, the intellectual property rights, particularly existing or future patents, of High Arctic or such third parties may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps High Arctic or such third parties may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to High Arctic's operations will prevent misappropriation or infringement or the termination of licenses from third parties.

Risk of Third Party Claims for Infringement

A third party may claim that High Arctic has infringed such third party's rights or may challenge the right of High Arctic in their intellectual property. In such event, High Arctic will undertake a review to determine what, if any, actions High Arctic should take with respect to such claim. Any claim, whether or not with merit, could be time consuming to evaluate, result in costly litigation, cause delays in the operations of High Arctic or require High Arctic to enter into licensing agreements that may require the

payment of a license fee or royalties to the owner of the intellectual property. Such royalty or licensing agreements, if required, may not be available on terms acceptable to High Arctic.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. High Arctic cannot predict the impact of changing demand for oil and gas products, and any major changes may have a material adverse effect on High Arctic's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Risks Relating to an Investment in the Trust

Investment Eligibility; Mutual Fund Trust Status

If the Trust ceases to qualify as a mutual fund trust, the Trust Units may cease to be qualified investments for Exempt Plans. Where at the end of any month an Exempt Plan holds Trust Units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Exempt Plan. In addition, where a trust governed by a registered retirement savings plan or registered retirement income fund holds Trust Units that are not qualified investments, the trust will become taxable on its income attributable to the Trust Units while they are not qualified investments, including the full amount of any capital gain realized on a disposition of Trust Units while they are not qualified investments. Where a trust governed by a registered education savings plan holds Trust Units that are not qualified investments, the plan's registration may be revoked. In addition, if the Trust were to cease to qualify as a mutual fund trust:

- Trust Units may become foreign property for Exempt Plans and registered pension plans (subject to the repeal of the foreign property limits in accordance with the 2005 federal Budget announcement); and
- Trust Units held by Unitholders that are not residents of Canada would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a disposition of Trust Units held by them unless exempt under an income tax convention, and to certain notification and withholding requirements on a disposition of their Trust Units.

Redemption of Trust Units

It is anticipated that the redemption right associated with Trust Units will not be the primary mechanism for holders of Trust Units to dispose of their Trust Units. Holding Trust Notes, which may be distributed in specie to Unitholders in connection with a redemption, will not be listed on any stock exchange and no market is expected to develop in such Holding Trust Notes. Holding Trust Notes will not be qualified investments for trusts governed by Exempt Plans.

Nature of Trust Units

The Trust Units do not represent a traditional investment in the oilfield services sector and should not be viewed by investors as shares in HAES or High Arctic Energy or as a direct investment in High Arctic's business or assets. The Trust Units represent a fractional interest in the Trust. As holders of

Trust Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions.

The Trust’s primary assets are the Holding Trust Units and the Holding Trust Notes. The price per Trust Unit is a function of the anticipated distributable income, the underlying assets of the Trust and High Arctic LP’s ability to effect long-term growth in the value of the Trust. The market price of Trust Units is sensitive to a variety of market conditions including, but not limited to, interest rates, commodity prices and the ability of the Trust to acquire additional assets. Changes in market conditions may adversely affect the trading price of Trust Units.

The Trust Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Unitholder Limited Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Trust or its obligations or affairs and, in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder’s share of the Trust’s assets.

The Declaration of Trust provides that the Trustee or the General Partner, as administrator, must make reasonable efforts to ensure that all written instruments signed by or on behalf of the Trust contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Personal liability may also arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely by the Trust.

The operations of the Trust are conducted, upon the advice of counsel, in such a way and in such jurisdiction as to avoid as far as possible any material risk of liability on Unitholders for claims against the Trust.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. If the Trust ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations described herein under the heading “Canadian Federal Income Tax Considerations” would be materially and adversely different in certain respects.

Interest on the Holding Trust Notes accrues at the Trust level for Canadian federal income tax purposes, whether or not actually paid. The Declaration of Trust provides that a sufficient amount of the Trust’s net income will be distributed each year to Unitholders in order to eliminate the Trust’s liability for tax under Part I of the Tax Act. Where such amount of net income (including interest on the Holding Trust Notes) of the Trust in a taxation year exceeds the cash available for distribution in the year, such excess net income will be distributed to Unitholders in the form of additional Trust Units. Unitholders will generally be required to include an amount equal to the fair market value of those additional Trust Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

The Department of Finance has indicated that it will continue to monitor and evaluate the development of the business income trust market as part of its ongoing monitoring and assessment of Canadian financial markets and the Canadian tax system. Any legislative changes in this area could result in materially different federal income tax considerations.

Unanticipated Tax and Other Expenses and Liabilities of HAES

All of HAES' cash flow is to be paid by HAES as bonuses or other employment income, income tax and dividends on the Series A Exchangeable Shares. HAES does not anticipate that it will be liable to pay taxes other than the foregoing income tax, and capital tax in respect of which it will be reimbursed by High Arctic LP as the capital tax will effectively relate to High Arctic LP's capital. HAES also does not anticipate that it will have other ongoing expenses or liabilities or past liabilities which have not been assumed or indemnified by High Arctic LP. However, in the event that HAES becomes liable to pay any additional income or other taxes or other expenses or liabilities, as HAES has no other effective source of funds the economic risk of such additional taxes or other expenses or liabilities will effectively be borne by the Unitholders, including the holders of Exchangeable Shares, on a fully diluted basis.

Restrictions on Non-Resident Ownership

The Declaration of Trust contains a number of provisions designed to protect the status of the Trust as a "mutual fund trust" under the Tax Act which, *inter alia*, requires that a mutual fund trust cannot be established or maintained primarily for the benefit of persons who are not resident in Canada for purposes of the Tax Act. If, in the future, HAES determines that a risk of losing its mutual fund trust status exists, it is entitled to take a number of actions under the Declaration of Trust, including requiring Unitholders that it believes are Non-Residents to sell their Trust Units, which action may have an adverse effect on the market price of the Trust Units. In addition, there can be no assurances that the Tax Act will not be amended in the future in a manner that would have a material adverse impact on the mutual fund trust status of the Trust.

Dependence on Operating Entities

The Trust is an open-end unincorporated investment trust that is entirely dependent upon the operations and assets of High Arctic LP through the direct and indirect ownership of the Holding Trust Units, the Holding Trust Notes, the High Arctic LP Notes and LP Units, respectively. Accordingly, the cash distributions to Unitholders are dependent upon the ability of High Arctic LP and Holding Trust to pay their interest obligations under the Holding Trust Notes and High Arctic LP Notes, respectively.

Return of Capital

Cash distributions do not represent a "yield" in the traditional sense as they may represent both return of capital and return on investment.

Changes in Legislation

There can be no assurance that income tax laws and other governmental programs relating to the oil and gas industry and the energy services industry, such as the status of mutual fund trusts, will not be changed in a manner which adversely affects Unitholders.

Delay in Cash Distributions

In addition to the usual delays in payment by purchasers of the Trust's services, payments between any of such parties may also be delayed by restriction imposed by lenders, delay in the sale of services or other delays. Such delays may have an impact on distributable income to be distributed to Unitholders.

Additional Financing

There is no guarantee that the Trust will be able to secure additional financing for future costs of operations or expansion. Additional financing may not be available, or may not be available on favourable terms. Where additional financing is raised by the issuance of Trust Units or securities convertible into Trust Units, control of the Trust may change and Unitholders may suffer dilution to their investment. The Trust's activities may also be financed partially or wholly with debt, which may increase the Trust's debt levels above industry standards. The level of the Trust's indebtedness from time to time could impair the Trust's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

CASH DISTRIBUTIONS

The Trust makes cash distributions to Unitholders on each Distribution Payment Date of all of the Distributable Cash. The Distributable Cash will be determined giving consideration to the consolidated net income of the Trust, the consolidated growth and maintenance capital requirements and the consolidated debt repayment requirements of the Trust. The intent is to maximize the Distributable Cash giving consideration to these consolidated financial requirements and long-term Unitholder value. In addition, the Declaration of Trust provides that, if necessary on December 31 of each year, the Trust will distribute an additional amount such that the Trust will not be liable for ordinary income tax for such year. Currently, the monthly distributions are set at \$0.0875 per unit.

The following is a summary of the distributions made by the Trust from its inception in July 2005 to December 2005.

<u>For the Month Ended</u>	<u>Distribution per Trust Unit</u>	<u>Payment Date</u>
August 31, 2005 ⁽¹⁾	\$0.1185	September 15, 2005
September 30, 2005	\$0.0875	October 15, 2005
October 31, 2005	\$0.0875	November 15, 2005
November 30, 2005	\$0.0875	December 15, 2005
December 31, 2005	\$0.0875	January 15, 2006

Note:

- (1) This distribution was the first cash distribution of the Trust following the completion of the Initial Public Offering and represents the distribution paid for the period from July 21, 2005 to August 31, 2005.

DESCRIPTION OF CAPITAL STRUCTURE

High Arctic Energy Services Trust

Trust Units

An unlimited number of Trust Units may be created and issued pursuant to the Declaration of Trust. Each Trust Unit represents an equal undivided beneficial interest in any distribution from the Trust (whether of income of the Trust, net realized capital gains or other amounts) and in any net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units outstanding from time to time shall be entitled to equal shares of any distributions by the Trust, and in the event of termination or winding-up of the Trust, in any net assets of the Trust. All Trust Units of the Trust shall rank among themselves equally and rateably without discrimination, preference or priority. Each Trust Unit is transferable, is not subject to any conversion or pre-emptive rights and entitles the holder thereof to require the Trust to redeem any or all of the Trust Units held by such holder and to one vote at all meetings of Unitholders for each Trust Unit held.

The Trust Units do not represent a traditional investment and should not be viewed by investors as “shares” in either the General Partner, High Arctic LP, Holding Trust or the Trust. As holders of Trust Units in the Trust, the Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. The price per Trust Unit is a function of anticipated distributable income from Holding Trust and High Arctic LP and the ability of Holding Trust and High Arctic LP to affect long-term growth in the value of the Trust. The market price of the Trust Units is sensitive to a variety of market conditions including, but not limited to, interest rates, commodity prices and the ability of the Trust to acquire additional assets. Changes in market conditions may adversely affect the trading price of the Trust Units.

Special Voting Rights

In order to allow the Trust flexibility in pursuing corporate acquisitions, the Declaration of Trust allows for the creation of Special Voting Rights which will enable the Trust to provide voting rights to holders of Exchangeable Shares and, in the future, to holders of other exchangeable shares that may be issued by HAES or other direct or indirect subsidiaries of the Trust in connection with other exchangeable share transactions.

An unlimited number of Special Voting Rights may be created and issued pursuant to the Declaration of Trust. Holders of Special Voting Rights shall not be entitled to any distributions of any nature whatsoever from the Trust and shall be entitled to such number of votes at all meetings of Unitholders equal to the number of Trust Units into which the exchangeable shares to which the Special Voting Rights relate are, directly or indirectly, exchangeable or convertible. Except for the right to vote at meetings of the Unitholders, the Special Voting Rights shall not confer upon the holders thereof any other rights.

The Trust has issued a Special Voting Right to the Trustee under the Voting and Exchange Trust Agreement for the benefit of the persons who own Exchangeable Shares.

High Arctic Holding Trust

Trust Units of Holding Trust

The Holding Trust Declaration of Trust provides that an unlimited number of Holding Trust Units may be created and issued pursuant to the Holding Trust Declaration of Trust. Holders of Holding Trust Units are entitled to receive distributions on the Holding Trust Units in accordance with the terms of the Holding Trust Declaration of Trust and such other distributions as may be made pursuant to the Holding Trust Declaration of Trust. In the event of the liquidation, dissolution or winding up of Holding Trust or other distribution of assets of Holding Trust among its unitholders for the purpose of winding up its affairs, unitholders of Holding Trust will be entitled to participate in the distribution in equal amounts per Holding Trust Unit on all of the Holding Trust Units at the time outstanding without preference or distinction. Unitholders of Holding Trust are be entitled to receive notice of and to attend all annual and special meetings of Holding Trust unitholders and to one vote in respect of each Holding Trust Unit held. The Holding Trust Units are redeemable at the demand of the unitholder and Holding Trust may call for redemption all or any part of the outstanding Holding Trust Units.

Holding Trust makes monthly cash distributions to the Trust (as the sole unitholder of Holding Trust) to coincide with the making of distributions by the Trust to the Unitholders. High Arctic LP has discretion as to the amount of income of Holding Trust paid or declared payable to the unitholders of Holding Trust and a portion of such income may be retained by Holding Trust and used for capital expenditures and such other matters as Holding Trust may deem necessary.

High Arctic Energy Services Limited Partnership

LP Units

High Arctic LP is 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 are held by Holding Trust and all of the LP Class B Units are held by HAES. Each LP Unit ranks 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.

Currently, (i) the number of issued LP Class A Units will be equal to the number of issued Trust Units and (ii) the number of issued LP Class B Units will be equal to the number of issued Series A Exchangeable Shares. However, the terms and conditions of the Partnership Agreement will 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.

High Arctic LP distributes 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 below. Distributions are made on or prior to the applicable Distribution Payment Date. Distributions on the LP Units are received by Holding Trust prior to its related distributions to the Trust. High Arctic LP may, in addition, make a distribution at any other time, subject to the subordination provisions described below. High Arctic LP will make nominal distributions to the General Partner each year.

Cash available for distribution by High Arctic LP represents EBITDA, as adjusted for:

- (a) satisfaction of its debt service obligations (principal and interest) under credit facilities or other agreements with third parties;
- (b) retaining reasonable working capital reserves, maintenance capital expenditure reserves or other reserves, including reserves for income and capital taxes and to stabilize distributions to the partners, as may be considered appropriate by the General Partner;
- (c) maintenance capital expenditures in excess of reserves; and
- (d) satisfaction of capital taxes in Holding Trust, General Partner and HAES due to their ownership of High Arctic LP.

High Arctic Energy Services Inc.

Common Shares

Each common share entitles its holder to receive notice of and to attend all meetings of the shareholders of HAES and to one vote at such meetings. The holders of common shares are, at the discretion of the board of directors of HAES and subject to applicable legal restrictions, and subject to certain preferences of holders of exchangeable shares, entitled to receive any dividends declared by the board of directors on the common shares to the exclusion of the holders of exchangeable shares, subject to the proviso that no dividends shall be paid on the common shares unless all declared dividends on the outstanding exchangeable shares have been paid in full. The holders of common shares are entitled to share equally in any distribution of the assets of HAES upon the liquidation, dissolution, bankruptcy or winding-up of HAES or other distribution of its assets among its shareholders for the purpose of winding-up its affairs. Such participation is subject to the rights, privileges, restrictions and conditions attaching to the exchangeable shares and any other shares having priority over the common shares. Holding Trust owns all of the issued and outstanding common shares of HAES.

Exchangeable Shares

The holders of exchangeable shares of each series have the right to receive Trust Units at any time (subject to the agreement referred to below) in exchange for their exchangeable shares, on the basis of the exchange ratio in effect at the time of the exchange and 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. Fractional Trust Units will not be delivered on any exchange of exchangeable shares. In the event that the exchange ratio in effect at the time of an exchange would otherwise entitle a holder of exchangeable shares to a fractional Trust Unit, the number of Trust Units to be delivered will be rounded down to the nearest whole number of Trust Units. The exchangeable shares of each series rank rateably with shares of any other series of exchangeable shares and prior to any common shares and any other shares ranking junior to the exchangeable shares with respect to the payment of dividends, if any, that have been declared and the distribution of assets in the event of the liquidation, dissolution or winding-up of HAES.

Two series of exchangeable shares of HAES, each in unlimited number, are currently authorized, designated as the Series A Exchangeable Shares and the Series B Exchangeable Shares.

The holders of the Series A and Series B Exchangeable Shares (other than the Trust or ExchangeCos) are entitled, as long as Jed Wood or the Wood Family Trust hold greater than 5,000,000

Exchangeable Shares, to receive notice of and to attend all meetings of the shareholders of HAES and to a number of votes equal to 50.1% of all votes attached to all shares which have a right to vote at such meeting. Otherwise, except as required by applicable law, the holders of the Series A and Series B Exchangeable Shares are not entitled as such to receive notice of or attend any meeting of the shareholders of HAES or to vote at any such meeting.

Series A Exchangeable Shares

It is intended, subject to HAES having sufficient funds available for such purpose, 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 income of HAES during such month. Series A Exchangeable Shares are, subject to certain anti-dilution adjustments, exchangeable for Trust Units on a one for one basis.

Series B Exchangeable Shares

Monthly dividends are not be paid on the Series B Exchangeable Shares, and in lieu thereof, these shares are 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 are 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 are, subject to certain anti-dilution adjustments, 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 are 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. On payment of the December 31, 2005 distribution to Trust unitholders on January 15, 2006, the conversion ratio for the Series B Exchangeable Shares per Series A Exchangeable Share increased to 1.039.

Unanimous Shareholders Agreement

Pursuant to the terms of the Unanimous Shareholders Agreement, the holders of the Series A and Series B Exchangeable Shares (other than the Trust or ExchangeCos) are entitled, as long as Mr. Wood or the Wood Family Trust hold greater than 5,000,000 Exchangeable Shares, to receive notice of and to attend all meetings of the shareholders of HAES and to a number of votes equal to 50.1% of all votes attached to all shares which have a right to vote at such meeting. Otherwise, except as required by applicable law, the holders of the Series A and Series B Exchangeable Shares are not entitled as such to receive notice of or attend any meeting of the shareholders of HAES or to vote at any such meeting. The board of directors of HAES have authority to manage its business and affairs, subject to applicable law and to the terms of the Unanimous Shareholders Agreement. The Unanimous Shareholders Agreement provides that HAES' activities are restricted to holding LP Units and distributing distributions received in respect thereof.

MARKET FOR SECURITIES

Trading Price and Volume

The Trust Units are listed on the TSX under the trading symbol "HWO.UN". The following table sets forth the monthly price ranges and volume of trading of the Trust Units on the TSX during 2005 commencing on July 21, 2005, the day the Trust Units first traded on the TSX, as provided by the TSX.

Month	High \$	Low \$	Volume
July	12.40	11.41	3,999,285
August	13.15	11.85	1,559,642
September	13.50	11.90	1,674,527
October	12.75	11.10	666,664
November	11.99	10.64	1,354,391
December	12.90	11.01	1,269,312

ESCROWED SECURITIES

The following table sets forth the number of securities of the Trust held, to High Arctic's knowledge, in escrow, and the percentage that number represents of the outstanding securities of that class.

Escrowed Securities Designation of Class	Number of Securities held in Escrow⁽¹⁾	Percentage of Class
Trust Units	996,572	10.2%

Note:

- (1) These Trust Units were issued to two employees of High Arctic pursuant to a private placement completed on July 21, 2005. The escrowed Trust Units were subject to an initial four-month hold period under applicable securities laws and are also subject to an escrow agreement under which they cannot be released until July 21, 2008. Stikeman Elliott LLP was appointed as escrow agent for the escrowed Trust Units.

DIRECTORS AND OFFICERS

The board of directors of the General Partner manages the Trust and High Arctic LP and the officers and employees of High Arctic LP provide administrative and support services to the Trust.

The following table sets forth the names and municipalities of residence of those individuals who are directors of the General Partner and executive officers of High Arctic LP, together with their principal occupations and positions held during the last five years.

Name and Municipality of Residence	Position	Director or Officer Since	Present Occupation and Positions Held During the Last Five Years
Jed Morgan Wood <i>Red Deer, Alberta</i>	President, Chief Executive Officer, Director and Chairman of the Board	2005	President and Chief Executive Officer of High Arctic since 1993

Name and Municipality of Residence	Position	Director or Officer Since	Present Occupation and Positions Held During the Last Five Years
Ken Hemmerich <i>Dubai, United Arab Emirates</i>	Vice President, International Operations	2005	Vice President, International Operations of High Arctic since August 2002. Prior thereto, drilling supervisor with Dragon Oil LLC in the Middle East from June 2001 to August 2002 and Chief Operating Officer of Omax Resources Ltd. from February 1997 to June 2001
Shaun Marvin Peesker <i>Red Deer, Alberta</i>	Chief Financial Officer	2005	Chief Financial Officer of High Arctic since January 2004. Prior thereto, manager and senior manager at PricewaterhouseCoopers LLP since September 1998
Matthew Kurt Swartout <i>Red Deer, Alberta</i>	Vice President, Drilling	2005	Vice President, Drilling of High Arctic since March 2005. Prior thereto, a consulting drilling engineer for KISS Technologies Inc. since August 2003 and Engineering and Business Development Manager for Weatherford Underbalanced Drilling Systems in Dubai, United Arab Emirates from July 2002 to June 2003
Bruce Allan Thiessen <i>Red Deer, Alberta</i>	Vice President, Marketing	2005	Vice President, Marketing of High Arctic since 1993
Alan Douglas Archibald ⁽¹⁾⁽³⁾ <i>Calgary, Alberta</i>	Director	2005	Chief Executive Officer of Northpoint Energy Ltd. since November 2005. Chief Executive Officer of Tripoint Energy Ltd. from September 2003 to November 2005. President and Chief Operating Officer of Pointwest Energy Inc. from July 2000 until December 2003. President and Chief Operating Officer of Westpoint Energy Inc. from September 1999 until May 2000.

Name and Municipality of Residence	Position	Director or Officer Since	Present Occupation and Positions Held During the Last Five Years
Ian Andrew Mallory ⁽¹⁾⁽²⁾ <i>Calgary, Alberta</i>	Director	2005	President of Pickworth Development Corporation since May 2005. Executive Vice-President, Corporate Development of ENMAX Corporation from June 2003 until April 2005. Director-General, Westcoast Energy Mexico, S.A. de C.V. of Westcoast Energy Inc. (now Duke Energy Canada) from November 1995 to June 2002.
Michael Rupert Binnion ⁽¹⁾⁽²⁾ <i>Calgary, Alberta</i>	Director	2005	President and Chief Executive Officer of Questerre Energy Corporation since November 2000
Christopher Randall Warren ⁽³⁾ Q.C. <i>Red Deer, Alberta</i>	Corporate Secretary and Director	2005	Partner of the law firm Sisson Warren Sinclair
John Brian Zaozirny ⁽²⁾⁽³⁾ Q.C. <i>Calgary, Alberta</i>	Director	2005	Counsel to McCarthy Tétrault LLP and Vice-Chairman of Canaccord Capital Corporation

Notes:

- (1) Member of Audit Committee.
- (2) Member of Governance and Compensation Committee.
- (3) Member of Environmental, Health and Safety Committee.
- (4) On June 22, 2004, Questerre Energy Corporation applied for and was granted an order by the Court of Queen's Bench of Alberta providing for creditor protection under the *Companies Creditors Arrangement Act*. On September 9, 2004 Plans of Compromise or Arrangement were sanctioned by the Court of Queen's Bench of Alberta and implemented shortly thereafter. Michael Rupert Binnion, director of the General Partner, has been President and Chief Executive Officer of Questerre Energy Corporation since November 2000.

Unitholders are entitled to elect the board of directors of the General Partner. The term of office of each of the directors will expire at the next annual meeting of the Unitholders.

As at March 31, 2006, the directors and officers of High Arctic, as a group, beneficially owned, directly or indirectly, or exercised control or discretion over 910,646 Trust Units, or approximately 9.3% of the issued and outstanding Trust Units, and 15,590,737 Exchangeable Shares, representing 98.7% of the 15,612,952 issued and outstanding Exchangeable Shares and the 189,355 issuable Exchangeable Shares that result from application of the Conversion Ratio. Mr. Wood is currently the sole holder, directly and indirectly, of all the common shares of HAES. Mr. Wood holds, directly or indirectly, 266,527 Trust Units and 14,710,261 issued or issuable Exchangeable Shares, the latter of which are exchangeable for 14,710,261 Trust Units. Mr. Wood's collective holdings represent approximately 58.6% of the Trust Units on a diluted basis.

Conflicts of Interest

High Arctic included in its revenues and accounts receivable for the 2005 fiscal year, \$13.6 million and \$9.0 million, respectively, in relation to a contract with a company in which Jed Wood, the

Chief Executive Officer has an ownership interest. These amounts represent fair market value for the services provided and the amount receivable was collected in its entirety subsequent to year-end.

PROMOTERS

HAES may be considered a promoter of the Trust by reason of its initiative in forming and establishing the Trust and taking the steps necessary to complete the Initial Public Offering. Prior to the Reorganization, Jed Wood was the sole holder, directly and indirectly, of all the common shares of HAES. Other than as disclosed elsewhere in this AIF, the promoter has not received any benefits, directly or indirectly, from the Trust.

LEGAL PROCEEDINGS

There are currently no outstanding legal proceedings material to the Trust to which the Trust or any subsidiary of the Trust is a party or of which any of their respective property is the subject matter nor are any such proceedings known to the Trust to be contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than pursuant to the Reorganization or as described herein under “Directors and Officers – Conflicts of Interest”, there were no material interests, direct or indirect, of directors and executive officers of the Trust, the General Partner, HAES or High Arctic LP, any Unitholder who is the direct or indirect beneficial owner of, or who exercises control or direction over more than 10% of the Trust Units, or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the most current financial year which has materially affected or will materially affect the Trust.

TRANSFER AGENTS AND REGISTRARS

The auditors of the Trust are PricewaterhouseCoopers LLP, Chartered Accountants, 3100, 111 – 5th Avenue S.W., Calgary, Alberta T2P 5L3.

Valiant Trust Company is the registrar and transfer agent for the Trust Units at its principal offices in Calgary, Alberta and, through its agent, Equity Transfer Services Inc. in Toronto, Ontario.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the only contracts entered into within the most recently completed financial year, or before the most recently completed financial year but still in effect by HAES, High Arctic LP, High Arctic Energy or the Trust which may reasonably be regarded as presently material are:

1. the Declaration of Trust;
2. the agency agreement entered into on July 21, 2005 among HAES, the General Partner, the Trust and Canaccord Capital Corporation, Sprott Securities Inc., Lightyear Capital Inc., J.F. Mackie & Company Ltd., Haywood Securities Inc. and Wellington Capital Markets Inc., with respect to the Initial Public Offering;
3. the support agreement entered into on July 21, 2005 among HAES and the Trust creating certain support obligations of the Trust with respect to the Exchangeable Shares;

4. the Voting and Exchange Trust Agreement;
5. the Administration Agreement;
6. the limited partnership agreement entered into on July 20, 2005 between the General Partner and Holding Trust forming High Arctic LP, as amended, supplemented or restated from time to time; and
7. the Unanimous Shareholders Agreement.

Copies of each of the foregoing have been filed on SEDAR.

INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement, report or valuation made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Trust during, or related to, the Trust's most recently completed financial year other than PricewaterhouseCoopers LLP, the Trust's auditors. To the knowledge of the Trust: (i) PricewaterhouseCoopers LLP did not have any registered or beneficial interests, direct or indirect, in any securities or other property of the Trust or of the Trust's associates or affiliates either at the time they prepared the statements, report or valuation prepared by them, at any time thereafter or received by them, and (ii) neither PricewaterhouseCoopers LLP nor any director, officer or employee of PricewaterhouseCoopers LLP is or is expected to be elected, appointed or employed as a director, officer or employee of the Trust or any associate affiliate of the Trust.

AUDIT COMMITTEE INFORMATION

Members

The Audit Committee currently has 3 members, Alan Archibald, Michael Binnion and Ian Mallory, none of whom has a direct or indirect material relationship with the Trust and all of whom are financially literate, meaning the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issuers that can be expected to be raised by the Trust's financial statements.

The following is a description of the education and experience of each member of the Audit Committee.

Alan D. Archibald

Mr. Archibald was President and Chief Operating Officer with Westpoint Energy Inc. (formerly Slade Energy) from September 1999 until it was sold in May 2000. In July 2000, he was a co-founder of Pointwest Energy Inc. and served as the President and Chief Operating Officer until the sale of the company in December 2003. In September 2003, Mr. Archibald was the co-founder of Point Energy Group which created two private exploration and production companies, Northpoint Energy Ltd. and Tripoint Energy Ltd. These two companies merged in October 2005 and continue as Northpoint Energy Ltd. Mr. Archibald currently serves as the Chief Executive Officer of Northpoint Energy Ltd. and serves on the Board of the following entities: Northpoint Energy Ltd., Kerogen Petroleum Ltd., MEG Energy Corp., Mullen Group Income Fund and Canadian Energy Services LP. Mr. Archibald is a Professional

Engineer with a Mining Engineering degree from the Technical University of Nova Scotia (1982) and a Bachelor of Science degree from Dalhousie University (1980).

Michael R. Binnion

Mr. Binnion has been actively involved in the financing and executive management of numerous private and public companies through his investment company, Rupert's Crossing Inc. Mr. Binnion is founder and Chief Executive Officer of Questerre Energy Corporation, a Calgary based independent energy company listed on the TSX. He has also been a Director of Terrenex Acquisition Corporation, a public investment company listed on the TSX Venture Exchange since 1995 and a Director of Sylogist Ltd., an information technology solution service provider listed on the TSX Venture Exchange since 1997. Mr. Binnion also holds board positions on four other private companies. Mr. Binnion was a founding shareholder and Chief Executive Officer of Flowing Energy Corporation, a junior oil and gas company, from 1996 until 2001 and was founding shareholder, President, Chief Financial Officer and a Director of CanArgo Energy Corporation, an integrated energy company operating in the Republic of Georgia from 1996 to 2000. Mr. Binnion is a Chartered Accountant and holds a Bachelor's degree in Commerce from the University of Alberta.

Ian Mallory

Mr. Mallory has been the President of Pickworth Development Corporation since May 2005. He was the Executive Vice-President, Corporate Development of ENMAX Corporation from June 2003 until April 2005. Previously, Mr. Mallory was Director-General, Westcoast Energy Mexico, S.A. de C.V. of Westcoast Energy Inc. (now Duke Energy Canada) from November 1995 to June 2002. Mr. Mallory has a Bachelor of Arts degree from Harvard University (1981), a Bachelor of Laws from the University of Toronto (1984) and a Master of Philosophy in International Relations from Cambridge University (1989). Mr. Mallory has been a member of the Law Society of Upper Canada as a barrister and solicitor since April 1996.

Charter

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for financial matters. It performs this function by serving as an independent and objective party to monitor the Trust's financial reporting process and internal control system; reviewing and assessing audit efforts of the Trust's independent auditors; providing an avenue of open communication among the Trust's independent auditors, financial and senior management and General Partner's Board of Directors; and reviewing the independence and performance of the independent auditor. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist in the conduct of any investigation. Attached as Schedule A hereto is the complete text of the Audit Committee's terms of reference.

Audit Fees

The table below provides disclosure of the fees billed by the Trust's external auditors in fiscal 2005 and fiscal 2004, dividing the services into the categories of work performed.

Type of Work	2005 – Fees	2005 – Percentage	2004 - Fees	2004 – Percentage
Audit Fees	\$170,000	24.0%	\$133,500	100%
Audit Related Fees				
Quarterly review	\$55,512	7.8%	Nil	Nil
Tax planning and compliance	\$273,946	38.5%	Nil	Nil
Other (Initial public offering, reviews and discussions on accounting matters)	\$211,500	29.7%	Nil	Nil

All non-audit services are disclosed to and approved by the Audit Committee.

ADDITIONAL INFORMATION

Additional information relating to the Trust may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Trust's securities and securities authorized for issuance under equity compensation plans is contained in the Information Circular of the Trust for its most recent annual meeting of Unitholders that involved the election of directors of the General Partner. Additional financial information is contained in the Trust's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2005.

SCHEDULE A

HIGH ARCTIC ENERGY CORP.

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Constitution

Pursuant to the Business Corporations Act (Alberta), the bylaws of High Arctic Energy Corp. (the "Corporation"), administrator of High Arctic Energy Services Trust (the "Trust") and a resolution of the Board of Directors of the Corporation (the "Board") dated September 16, 2005 and in intended compliance with applicable corporate and securities laws and the requirements of the Toronto Stock Exchange, there is hereby constituted, as a standing committee of the Board, a committee designated as the "Audit Committee" (the "Committee") which Committee is delegated the powers and subject to the terms of reference hereinafter set forth.

2. Mandate

The mandate of the Committee shall be to assist the Board in fulfilling its oversight responsibilities in respect of: (i) the adequacy, integrity and effectiveness of the Corporation's, the Trust's and its subsidiaries (collectively, "High Arctic") financial reporting process and financial statements, including without limitation the adequacy, integrity and effectiveness of internal financial and management controls and systems; and the adequacy and integrity of the audit process; and (ii) risk management for High Arctic, including without limitation the adequacy, integrity and effectiveness of risk management systems and reporting, in addition to any mandate or function prescribed by applicable law, regulation or rule to be discharged by a Committee constituted as the audit committee of an entity such as High Arctic.

3. Organization and Operation

- (1) The Committee shall be comprised of a minimum of three (3) members of the Board.
- (2) Each of the members of the Committee shall be "unrelated directors", "outside directors" and "financially literate", as such terms are defined from time to time pursuant to the Governance Guidelines of the Toronto Stock Exchange and to the extent practicable, the Committee shall include at least one member who may reasonably be regarded as a financial expert. In addition, each of the members of the Committee shall be "independent" and "financially literate" as required by Multilateral Instrument 52-110 or any rule or instrument implemented in substitution or addition thereto.
- (3) A majority of the members of the Committee shall be residents of Canada.
- (4) The Committee shall have the power to appoint its chairman, who must be a resident of Canada.
- (5) Any member of the Committee or the auditors of the Corporation (the "auditors") may call a meeting of the Committee upon not less than 48 hours' notice to the other members of the Committee.

- (6) The auditors of the Trust are entitled to receive notice of every meeting of the Committee and at the expense of the Trust, to attend and be heard thereat and, if so requested by a member of the Committee, shall attend any meeting of the Committee held during the term of office of the auditors.
- (7) The Committee shall meet at least four times annually.
- (8) A quorum for meetings of the Committee shall be a majority of its members, provided that a majority of the members of the Committee comprising such quorum must be residents of Canada.
- (9) Questions arising at any meeting of the Committee shall be decided by a majority of the votes cast.
- (10) The rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing meetings of the Board or as otherwise provided in the by-laws of the Corporation.
- (11) Except as set forth herein, the Committee may determine its own rules of procedure.

4. Duties and Responsibilities

In the discharge of its mandate, the Committee shall:

Corporate Information and Internal Control

- (1) review and recommend for approval by the Board annual and quarterly financial statements, and all financial information in any prospectus, offering memorandum, annual information form, management's discussion and analysis ("MD&A") or annual report of the Corporation or the Trust;
- (2) review and make recommendations with respect to information and control systems of High Arctic;
- (3) review and approve all major changes to information and control systems of High Arctic;
- (4) review and approve spending authorities and approval limits of officers of High Arctic;
- (5) review and approve all determinations made in respect of significant accounting and tax compliance issues;
- (6) review all significant financial, accounting and tax issues in connection with proposed non-recurring events such as mergers, acquisitions or divestitures;
- (7) review and approve all press releases or other publicly circulated documents containing financial information;

Auditors

- (8) make recommendations to the Board in respect of the auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for High Arctic, in respect of the terms of retainer of the auditors and, as

determined desirable or necessary, in respect of the replacement of the auditors (subject to securityholder notification and approval);

- (9) review the terms of the auditors' engagement and make recommendations to the Board as to the compensation of the auditors;
- (10) oversee the work of auditors engaged for the purposes of preparing or issuing an audit report or performing other audit, review or attest services for High Arctic, including the resolution of disagreements between management and the auditors regarding financial reporting;
- (11) annually, obtain and review a report by the auditors of the Trust's internal quality control procedures and systems;
- (12) review and make recommendations in respect of any material issues raised by any internal quality control review (or peer review) of High Arctic or by any inquiry or investigation by governmental or professional authorities;
- (13) annually, evaluate the auditors' qualifications, performance and independence;
- (14) annually, to assure continuing auditor independence, consider the rotation of lead audit partner or the auditor itself;
- (15) where there is a change of auditor, review all issues related to the change, including information to be included in the notice of change of auditors (National Policy No. 31 as adopted by the Canadian Securities Regulatory Authorities ("NP31")), and the planned steps for an orderly transition;
- (16) review all reportable events, including disagreements, unresolved issues and consultations, as defined in NP 31, on a routine basis, whether or not there is a change of auditors;
- (17) pre-approve engagements for non-audit services provided by the auditors or their affiliates, together with estimated fees and potential issues of independence;
- (18) set hiring policies for partners, employees and former partners and employees of the present and former auditors;
- (19) at least annually, separately interview management and the auditors to discuss the relationship between them, especially as regards to the competency, communication, access provided and cooperation displayed in matters relating to the audit and the financial affairs of High Arctic;
- (20) establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by High Arctic regarding accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of High Arctic of concerns regarding questionable accounting or auditing matters;

- (21) monitor changes to applicable laws, regulations and rules and industry standards and practices with respect to financial reporting;

Audit

- (22) review with management and the auditors the audit plan for the coming year;
- (23) review with management and the auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgements of management that may be material to financial reporting;
- (24) separately interview management and the auditors regarding significant financial reporting issues during the fiscal period and the method of resolution;
- (25) review any problems experienced by the auditors in performing the audit, including any restrictions imposed by management or significant accounting issues in which there was a disagreement with management;
- (26) review annual and quarterly financial statements with management and the auditors (including disclosures under MD&A), in conjunction with the report of all significant variances between comparative reporting periods;
- (27) review and make recommendations as to the auditors' report to management and management's response and subsequent remedy of any identified weaknesses;

Risk Management and Controls

- (28) provide oversight in respect of risk management policies and practices, including the identification of major business risks and the processes and other steps taken to mitigate such risks;
- (29) review and make recommendations as to hedging strategies, policies, objectives and controls;
- (30) review, not less than quarterly, a mark to market assessment of High Arctic's hedge positions and counter party credit risk and exposure;
- (31) review High Arctic's risk retention philosophy and resulting exposure to the Corporation;
- (32) review the adequacy of insurance coverage;
- (33) review loss prevention policies and programs in the context of competitive and operational considerations;
- (34) review and recommend for approval the annual operating and capital budgets of High Arctic and any amendments thereto;
- (35) annually review authority limits for capital expenditures; and
- (36) review all pending litigation involving High Arctic and assess the prospective exposure to High Arctic.

Other Duties and Responsibilities

The responsibilities, practices and duties of the Committee outlined herein are not intended to be comprehensive. The Board may, from time to time, charge the Committee with the responsibility of reviewing other items of a financial or control nature or a risk management nature.

The Committee shall periodically report to the Board decisions taken in exercise of powers conferred herein and the results of reviews undertaken and any associated recommendations.

5. Authority

The Committee shall have all power and authority necessary or desirable to fully and effectively discharge its mandate hereunder and, in that connection and without limitation, the Committee may:

- (1) investigate any corporate activity, in any area, that the Committee considers necessary or advisable, and, for such purposes and the performance of its other responsibilities, the Committee shall have unrestricted access to all personnel and records of High Arctic, the auditors and all other advisors to High Arctic;
- (2) make any recommendation to the Board, as it considers necessary or advisable, in respect of matters within its mandate, provided however that where the Committee intends to make any such recommendation, the recommendation shall first be presented to the Lead Director and in respect of financial matters, to the auditor for comment before being communicated to the Board, unless the Committee concludes that such action would not be in the best interest of High Arctic and/or the securityholders; and
- (3) engage and obtain the advice of outside advisors if necessary to properly discharge its functions, duties and responsibilities including, without limitation,
 - (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties;
 - (b) to set and pay the compensation for any advisors employed by the Committee; and
 - (c) to communicate directly with the auditors.

6. Limitation

The foregoing is (i) subject to and without limitation of the requirement that in exercising their powers and discharging their duties the members of the Board act honestly and in good faith with a view to the best interests of the Corporation and the Trust; and (ii) subject to and not in expansion of the requirement that in exercising their powers and discharging their duties the members of the Board exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Dated for reference this 16th day of September, 2005.