Precision Drilling Trust

Turning in the Right Direction

Annual Report 2005

Annual Meeting

The Annual General Meeting of the unitholders of Precision Drilling Trust will be held in the McMurray Room of the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary, Alberta, Canada at 3:00 p.m. (Calgary time) on Tuesday, May 9, 2006.

Unitholders are encouraged to attend and those unable to do so are requested to complete and return the Form of Proxy.

Contents

Turning in the Right Direction

IN OUR BUSINESS, OUR PEOPLE KNOW A JOB IS GOING WELL when we "keep it turning to the right." It means the rig is working, the well is being drilled, and we are fullfilling our customer contract. We are doing what we do best, we keep it turning to the right!

That is where our business begins, when it turns to the right. Drilling is just the first step in the process with our client. We also provide well completion and production services, along with a host of logistical support.

During 2005 our asset and business base was restructured into an income trust, with a focus on our Canadian contract drilling, completion and production businesses. This was a new turn in the strategic direction of Precision, but one that positions us well to add value to our unitholders. It was a turn in the right direction.

FINANCIAL HIGHLIGHTS

(stated in thousands of Canadian dollars, except per unit/share amounts which are presented on a diluted basis)

Years ended December 31,	2005	2004	% change
Revenue	**$1,269,179**	$1,028,488	23
Operating earnings[1]	**465,378**	331,313	40
Interest, net	**29,270**	46,280	(37)
Premium on redemption of bonds	**71,885**	–	n/a
Loss on disposal of short-term investments	**70,992**	–	n/a
Gain on disposal of investments	**–**	(4,899)	n/a
Earnings from continuing operations before income taxes	**293,231**	289,932	1
Income taxes	**72,383**	101,801	(29)
Earnings from continuing operations	**220,848**	188,131	17
Per unit/share	**1.76**	1.61	9
Discontinued operations, net of tax[3]	**1,409,715**	59,273	2,278
Net earnings	**1,630,563**	247,404	559
Per unit/share	**13.00**	2.11	516
Net capital expenditures[2]	**140,077**	113,897	23
Long-term debt	**96,838**	718,850	(87)
Total assets	**1,718,882**	3,852,049	(55)
Number of units/shares outstanding, end of year (000's)	**125,461**	121,580	3

[1] Operating earnings is not a recognized measure under generally accepted accounting principles (GAAP) – see explanation on page 47.
[2] Excludes acquisitions and discontinued operations.
[3] Includes gain on disposition of discontinued operations.

Cautionary Statement Regarding Forward-looking Information and Statements

Certain statements contained in this Annual Report and under the heading "Management's Discussion and Analysis" on pages 47 to 72 thereof, including statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the *United States Private Securities Litigation Reform Act of 1995,* and are based on certain assumptions and analysis made by us derived from our experience and perceptions.

Forward-looking information and statements in this Annual Report include, but are not limited to: 2006 expected cash provided by continuing operations; 2006 capital expenditures, including the amount and nature thereof; 2006 distributions; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy, including the 2006 strategy and outlook for our business segments; expansion and growth of our business and operations, including market share and position in the market's in which we operate; demand for our products and services; labour shortages; the maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information and statements are based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the impact of general economic conditions in Canada; industry conditions, including the adoption of new environmental, taxation and other laws and regulations and changes in how they are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks inherent in well servicing, contract drilling and ancillary oilfield services; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; the lack of availability of qualified personnel or management; labour unrest; fluctuations in interest rates; stock market volatility; opportunities available to or pursued by us and other factors, many of which are beyond our control. The foregoing factors are not exhaustive. Many of these risk factors are discussed in our Annual Information Form and Form 40-F on file with Canadian securities commissions and the United States Securities and Exchange Commission and are available on SEDAR at www.sedar.com and on our website at www.precisiondrilling.com.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information and statements will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Except as required by law, Precision Drilling Trust and Precision Drilling Corporation disclaim any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise. In the event subsequent events prove past statements about current trends to be materially different, we may choose to issue a news release explaining the reasons for the difference and update the guidance on the anticipated impact on revenue, earnings and other key events.

The forward-looking information and statements contained herein are expressly qualified by this cautionary statement.

PRECISION AT-A-GLANCE

STRATEGY

- Focus on our Target Zero safety culture initiatives to eliminate workplace incidents.
- Continue to develop and enhance our employee recruitment and retention initiatives.
- Continue to upgrade equipment with a focus on keeping customer needs and regulatory requirements in mind.
- Retain a high quality, diverse fleet of rigs and service offerings.
- Maintain a flexible business that is responsive to market conditions and competitive pressures.
- Take advantage of technological advances where markets dictate.
- Focus on growth opportunities that will further enhance and diversify our service offerings.

SENIOR OPERATIONS MANAGEMENT

Dwayne Peters Senior Vice President

Ron Berg Senior Vice President, Operations

John Jacobsen Vice President, Operations

Alex MacAusland Vice President, Operations

Rolly Marks Vice President, Operations

Doug Evasiuk Vice President, Marketing

Steve James Vice President, Health, Safety & Environment

Terry Sakamoto Vice President Finance, Operations

Contract Drilling Services

The Contract Drilling Services business segment forms the foundation of our oilfield services enterprise. As a result of Precision's divestitures in 2005, we have returned to our roots, with a focus on contract drilling in the Western Canada Sedimentary Basin. Precision has the largest drilling rig fleet in Canada. At December 31, 2005, our 230 drilling rigs represented 30 percent of the industry's fleet of 770 drilling rigs.

Operations Management

Ross Pickering Operations Manager, Precision Drilling, Operations Support Centre 1

Grant Hunter Operations Manager, Precision Drilling, Operations Support Centre 2

Kim Lindsay Operations Manager, Precision Drilling, Technical Support Centre

David Keyes Safety Manager, Field Operations, Precision Drilling

Clint Neufeld General Manager, LRG Catering

Martin Byar General Manager, Columbia Oilfield Supply

Yook Tong General Manager, Rostel Industries

(As at December 31, 2005)

Division	Services provided	Equipment and facilities
Precision Drilling	Contract drilling	230 drilling rigs
LRG Catering	Camp and catering	92 conventional and base camps
Rostel Industries	Equipment engineering, manufacturing, repair and certification	48,000 sq. ft. machine shop
Columbia Oilfield Supply	Supply procurement and distribution	40,000 sq. ft. warehouse and distribution facility

Completion and Production Services

The Completion and Production Services business segment is Canada's leading provider of well servicing, snubbing services and oilfield rentals. By focusing on the needs of our customers, this segment is well positioned to take advantage of growth opportunities. Precision has the largest fleet of well servicing rigs in Canada. At December 31, 2005, our 237 service rigs represented close to 24 percent of the industry's fleet of 1,009 service rigs.

Operations Management

Ken Hudgeon General Manager, Precision Well Servicing

Don Pack Operations Manager, Precision Well Servicing, South East

Randy Fyculak Operations Manager, Precision Well Servicing, North West

John Hyslop Operations Manager, Precision Well Servicing, Technical Centre

Dan Lundstrom Safety Manager, Field Operations, Precision Well Servicing

Steve Folk General Manager, Live Well Service

Darcy Falardeau General Manager, Precision Rentals

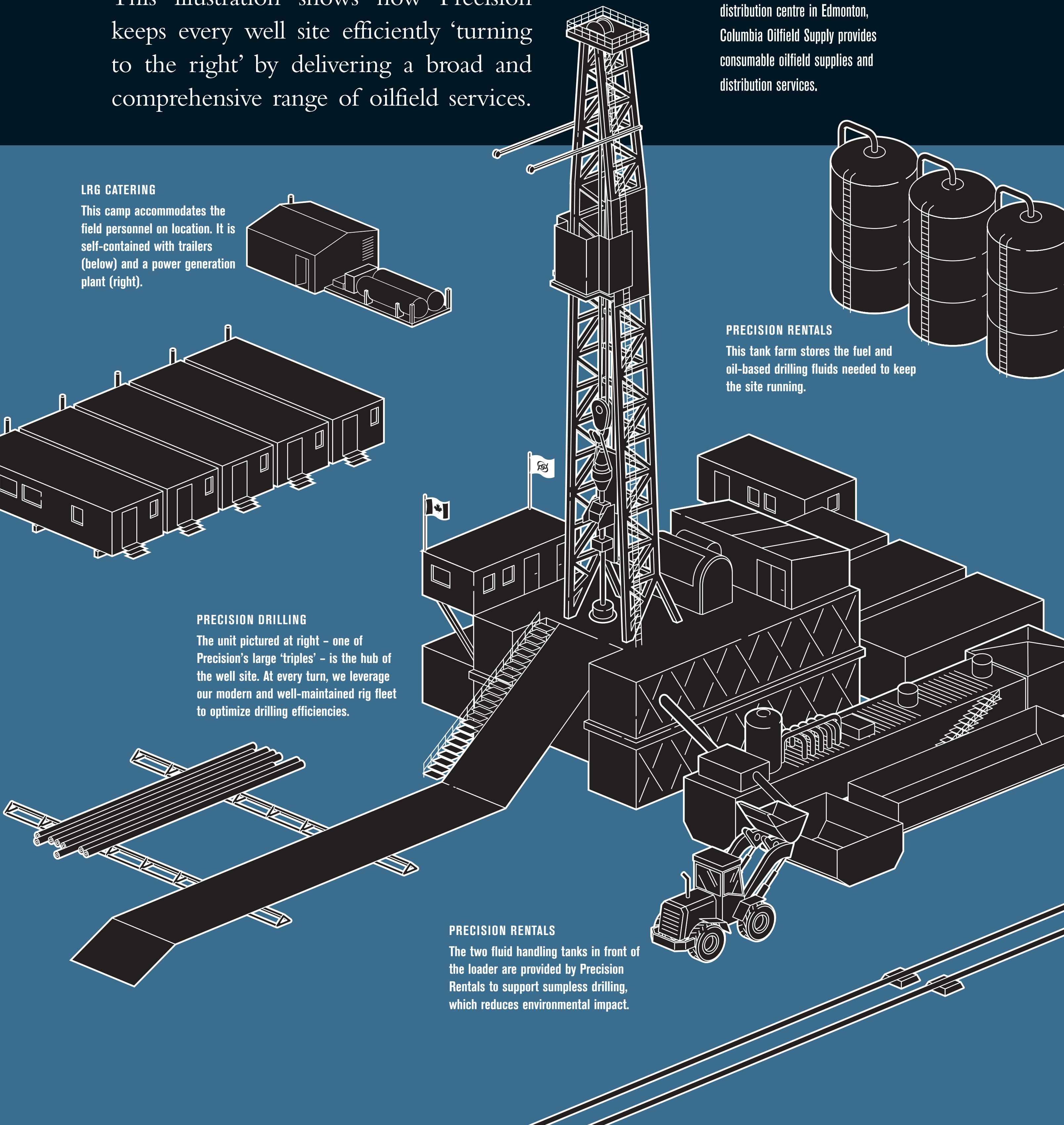
(As at December 31, 2005)

Division	Services provided	Equipment and facilities
Precision Well Servicing	Well completion and workover	237 service rigs
Live Well Service	Snubbing	26 snubbing units
Precision Rentals	Drilling, completion and production equipment	3,700 tanks, separators, 4,000 tools, valves
	Tubulars	8,000 joints
	Wellsite accommodations	300 wellsite trailers

Precision in Action

This illustration shows how Precision keeps every well site efficiently ‘turning to the right’ by delivering a broad and comprehensive range of oilfield services.

From our 40,000-square-foot distribution centre in Edmonton, Columbia Oilfield Supply provides consumable oilfield supplies and distribution services.



LRG CATERING

This camp accommodates the field personnel on location. It is self-contained with trailers (below) and a power generation plant (right).

PRECISION RENTALS

This tank farm stores the fuel and oil-based drilling fluids needed to keep the site running.

PRECISION DRILLING

The unit pictured at right – one of Precision’s large ‘triples’ – is the hub of the well site. At every turn, we leverage our modern and well-maintained rig fleet to optimize drilling efficiencies.

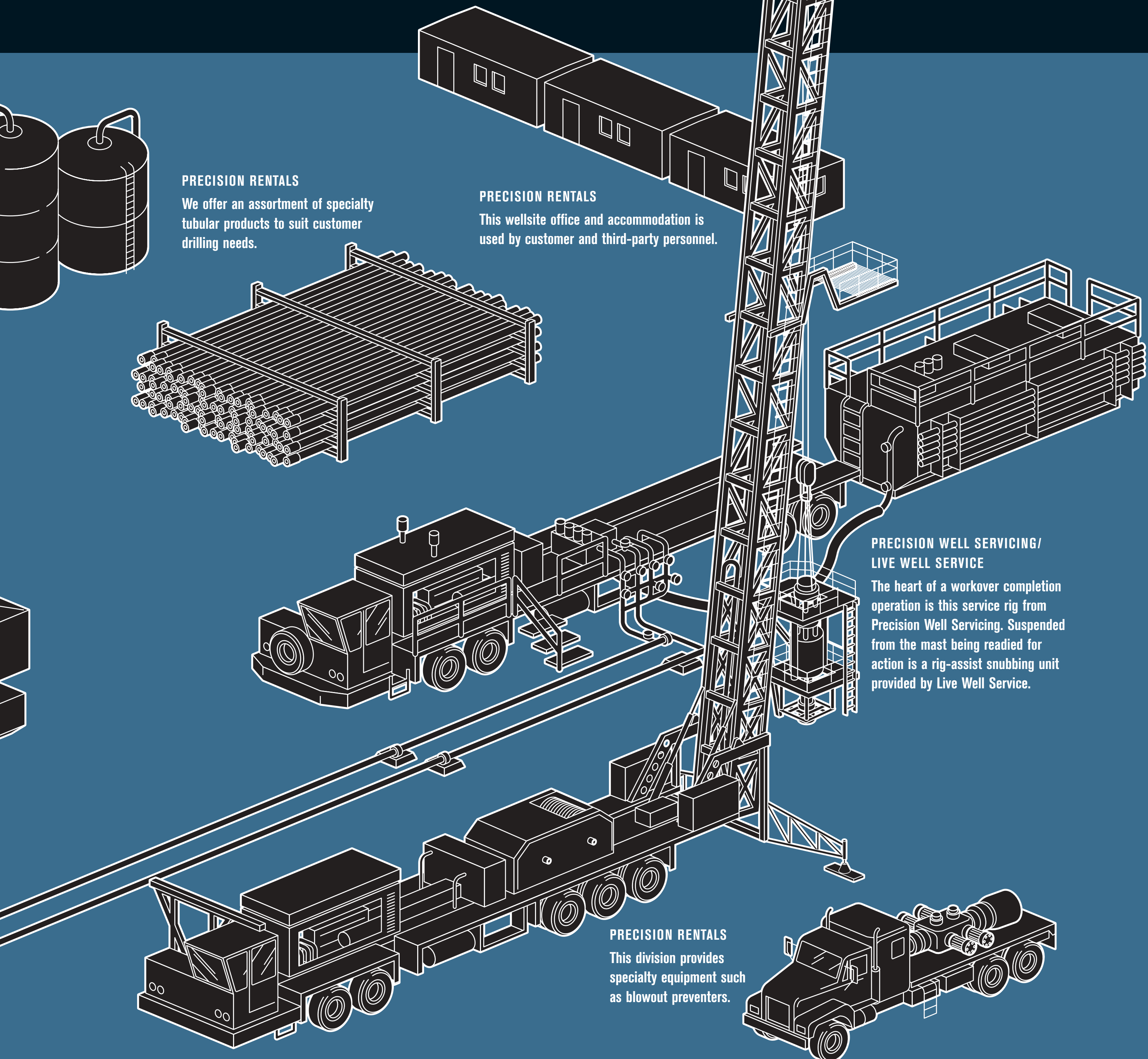
PRECISION RENTALS

The two fluid handling tanks in front of the loader are provided by Precision Rentals to support sumpless drilling, which reduces environmental impact.

Precision provides food and accommodation services at drilling camps for our own rigs as well as third party operations through LRG Catering.

Precision has the ability to design, modify and build its own drilling rigs in-house through Rostel Industries.

A comprehensive information technology infrastructure provides an integrated system that allows Precision personnel to streamline operations.



PRECISION RENTALS

We offer an assortment of specialty tubular products to suit customer drilling needs.

PRECISION RENTALS

This wellsite office and accommodation is used by customer and third-party personnel.

PRECISION WELL SERVICING/ LIVE WELL SERVICE

The heart of a workover completion operation is this service rig from Precision Well Servicing. Suspended from the mast being readied for action is a rig-assist snubbing unit provided by Live Well Service.

PRECISION RENTALS

This division provides specialty equipment such as blowout preventers.

Chief Executive Officer's Message

IN THE EVOLUTION OF ANY BUSINESS there are events that change the course and direction the organization takes from that point forward. There have been many of these events for Precision – acquisitions and divestitures that changed our business scope and the services we could offer our customers. We began in 1985 with three basic drilling rigs, sales of less than $1 million and a market capitalization of $750 thousand. Today Precision has a total fleet of over 460 drilling and service rigs, sales of close to $1.3 billion and a market capitalization exceeding $4.0 billion. Over the past 20 years we have taken advantage of many opportunities to redefine our business. Our growth can be described by tracing the transactions that increased our market share, added a new product or service, expanded our geographic reach and diversified our technology.

Over the years, these acquisition and divestiture decisions have been made with three key evaluation criteria in mind: we wanted to maintain our core team of people, augment the services we could provide customers and continue to be profitable. When the opportunity was presented, we expanded services, upgraded technology, gradually increased management, added business systems and timed our entry into new markets. We knew what businesses we wanted to be in; we also knew what business we did not want to be in until the conditions were right. And throughout these years of growth, our core business – contract drilling – has continued to be the engine that provided the steady profitability and capital for further expansion.

During 2005 there were several events that once again impacted our business. We divested of three business lines: Precision Energy Services which was our technology services group providing cased hole and open hole wireline services, drilling and evaluation services and production services; Precision Drilling International which was our international land rig contractor; and CEDA International which provided industrial cleaning, catalyst handling and mechanical services. Each of these were successful businesses, divisions we had managed and grown over a number of years. However, after years of trying to build shareholder value through a higher price to earnings share multiple, our capital market success was limited. We received independent financial and capital market analysis and advice that our shareholders would not fully benefit from the inherent value of Precision Energy Services while a subsidiary of Precision Drilling Corporation. On this basis, we embarked upon a value creation strategy considering a direct spin off to shareholders or through sale to a third party, which we did. In the final analysis, our Board of Directors determined that these businesses would have greater value in the hands of a larger company that had the required operating structure in place. These business lines were sold in August and

September 2005. The owners of Precision, our unitholders, were benefactors through the receipt of a special cash payment of $844 million and the transfer of almost 26 million shares of Weatherford International Ltd. valued at $2.0 billion.

The other significant decision of 2005 was to reorganize the remaining assets and convert Precision to an income trust. Quite simply, we believe this restructuring provided unitholders with the opportunity to participate directly in Precision's ability to generate sustainable profitability. Precision has always been profitable, despite the cyclical nature of the drilling business. Our flexible cost structure, variable workforce and strong management team are the key elements in an efficient business model that has generated profits through the cycles. The income trust model is the ideal business structure for entities like Precision with this track record of profitability. We felt confident that Precision could generate distributions through periods of low activity and in times of heightened activity, such as we are experiencing today.

Precision has therefore returned to its roots, with a focus on the contract drilling business in the Western Canada Sedimentary Basin. Twenty years of growth has positioned us as the largest energy service business in our sector. With a dominant market share in each of our core areas of business, we are well positioned to take advantage of ongoing opportunities for growth.

So the events of 2005, although larger in scale perhaps, have not altered the fundamental direction and business of Precision. We continue to have a strong team of people in place, provide services and products our customers want and provide profitable returns for our unitholders – we have met our three key criteria. And so, with the confidence that our business is in excellent hands, I have decided to formally pass on the day-to-day running of the business. The "new" team is a highly skilled group that includes young people we have hired and trained over the years as well as a number of people who have, in many cases, been with me for the past 20 years. It's a team that knows the business, understands the customers and is focused on positioning Precision for the next 20 years of growth. I have retained my role as Chairman and Chief Executive Officer. Over the next 12 months I will be mentoring this group led by Gene Stahl as President and Chief Operating Officer.

I would like to thank the Board of Directors for their time and strategic advice during a year where their counsel was sought and appreciated. I want to thank all of Precision's customers. Customer needs are at the core of every business decision we have made and I want to thank you for your loyalty and support, not only this year but also over 20 years of growth. Finally, I want to thank all the people of Precision. Your focus and hard work, spirit and enthusiasm, dedication and creativity have provided Precision with the success it enjoys today. Thank you.

Hank B. Swartout
Chairman and Chief Executive Officer
Precision Drilling Corporation,
Administrator to Precision Drilling Trust
March 7, 2006

President's Message

I AM VERY PLEASED to bring this first report to you the unitholders of the new Precision Drilling Trust. In my message I will provide a summary of events and performance of Precision in 2005 as well as an overview of the opportunities in 2006 and our strategies to capture those opportunities for continued profitability and growth.

The theme for this year's report is "turning in the right direction" and in so many ways, Precision has built a reputation for being able to turn to the right. During 2005 we returned to our business roots, Canadian contract drilling and complementary energy service businesses. In a sense, we are "turning to the right" with a drilling business in Canada that represents 30 percent of the industry. In November, Precision was reorganized into an income trust. While these changes represent a significant shift in our asset mix and our corporate structure, for a very large group of stakeholders the business remains essentially unchanged. For our employees, the same team of people who have been growing our core contract drilling business over the past two decades remains in place; for our customers in western Canada we remain the largest energy service entity in the country and continue to be focused on meeting their drilling, completion and production needs; and for our investors, we continue to provide returns in the top deciles of our industry and today can offer a cash distribution in addition to equity value. The foundation of Precision has always been the Canadian contract drilling, completion and production operations and that is where our operational focus is today.

Precision in 2005

In 2005, the oil and natural gas service industry was clearly a very good business to be in. Industry activity levels set new records in terms of numbers of wells, active rig count and drilling rates. The 2005 rig release well count was close to 25,000, up almost 10 percent due to exceptionally high activity in the second half of the year. This was in part driven by an increased number of deeper wells – which take longer to drill – as well as by overall strong demand. Precision's utilization rate averaged 56 percent for the year. Given that the operating utilization rate only counts the days the rig is drilling, and not the time required to move or wait on new locations, this level is approaching the optimum achievable. The benchmark was set in 1997 at a utilization rate of 71 percent.

The strong demand for our services is a function of two factors: first, the continued demand for crude oil within an environment of tightening supply worldwide; and second, the dominant role of natural gas in the North American energy sector. Almost three-quarters of the drilling activity in western Canada is targeting natural gas reservoirs, making this activity the primary driver of demand for Canadian oilfield services. While natural gas prices do fluctuate from variations in seasonal demand, the requirement for natural gas is on the increase overall. The counterpoint to this demand is the declining supply curve of North American natural gas reservoirs and, even with the current level of activity, supply is at best flat. The question of whether this situation will continue, and for how long, is the subject of much debate. Our expectation at Precision is that 2006 will be another year of significant demand for services and strong performance for the Trust.

Our financial and operating performance in 2005 was solid. Revenue increased 23 percent over the previous year to $1.3 billion. Operating earnings jumped 40 percent to $465 million. Our earnings from continuing operations before income taxes was $293 million which was a one percent increase over the previous year. However, there were a number of one time expenses resulting from our conversion to a trust that impacted this number in 2005. Specifically, Precision paid a premium of $72 million on the redemption of corporately held bonds. We also recorded a loss of $71 million on the shares of Weatherford International Ltd. which were received on August 31, 2005 as partial payment for the sale of our Energy Services and International Contract Drilling divisions. Also notable is the 23 percent increase in capital spending which represents monies reinvested in our equipment. Our approach is to make these kinds of reinvestments when results are strong, and so it has become almost a matter of policy to match revenue increases to capital expenditure increases. We believe this is an important mandate that renews and reinforces our operating infrastructure.

Responding to Opportunities

Let me take a moment to describe how we are positioned to handle the challenges that will accompany current demand levels. At today's utilization rates, the only meaningful way to increase capacity to meet additional demand is to add equipment. We will add 19 new rigs in 2006 and into 2007 at a steady pace. Of the 19 new rigs, nine are diesel electric triples rated to a depth of 4,000 metres. The remaining 10 will be our unique Super Single® rigs rated for depths of 1,200 to 3,000 metres, now in its ninth generation of technological advances. This rig exemplifies our emphasis on meeting customer expectations. In other words, we have built a fleet of drilling rigs over a number of years, modifying the technology and adding features that allow us to respond precisely to the requirements of our western Canadian customers. For example, our Super Single® rigs move faster, drill more quickly and operate successfully under a variety of drilling and geological conditions. This flexibility saves time and money for our customers, which reduces their costs and enhances their returns. By focusing on efficiency, we enjoy strong demand and good utilization rates within the industry.

Our attention to customer needs is also the reason for our breadth of services, which includes the production and completion services of our service rig fleet, as well as snubbing units and rental equipment which are required during and after a well is drilled. Our camp services provide onsite housing and support for crews on location while the supply and distribution infrastructure delivers provisions and equipment to crews and customers across the Western Canada Sedimentary Basin. Complementing our drilling services is our ability to internally provide pure manufacturing of drilling rig components.

At today's prices for oil and natural gas, any downtime in a drilling program is very costly for customers. We understand that, and over the years Precision has developed efficient business systems to respond to the "time-equals-money" equation. There are four pillars to our systems. Our centralized procurement and distribution centre provides a 24/7 distribution of consumable supplies and parts that are required to keep the rig working. Our in-house ability to manufacture, refurbish, certify and engineer equipment and rig components enables us to control response times to meet customer needs. Our technical support centres are a centralized resource where employees can access expertise on equipment and personnel matters to support their needs in the field. Finally, we have centralized all our information systems onto one common business platform to facilitate standardized business practices and timely access to information.

In a heady market like we have today, every oilfield service company will be busy. Over the long term, we have always believed in investing in relationships and building trust for those times when our customers have choices. We make sure that our core customers are serviced, which can be challenging in times of limited rig supply. However, we also manage our fleet so that we can respond to new customer requests as the opportunity arises. We see this market as an opportunity to maintain existing relationships and build new ones.

A key challenge in this market is the ability to train and retain staff, whether it is in the office or on the rigs. Over the years Precision has attempted to take a leadership role in this area by developing high standards of training and safety throughout our operation. Our safety culture is centered around our Target Zero safety program and the name captures our vision that we can eliminate all safety related incidents in Precision through continued training, reinforcing key attitudes and actions and setting a zero tolerance rule for not adhering to these practices.

We are also introducing a number of initiatives intended to increase our reach and appeal as an employer. These include targeting other areas of Canada and sponsoring events to raise awareness in rural areas. The message we want to send to potential new employees is strong and direct. Given the demand in the business today, a new employee with the right attitude and aptitude has the opportunity to move quickly up the ranks and establish a long and meaningful career. We want to be seen as the employer of choice in this business and our training programs, our Target Zero safety vision and our recruitment innovation is a reflection of that.

Strategies for Growth

Growth has been and continues to be a central component in our strategy to add unitholder value. Today, accretive growth is being delivered organically through the addition of new equipment across the organization. We also remain poised and open to acquisition opportunities at a price that is affordable and will yield incremental cash flow. Value-adding acquisitions are most likely to occur, as they have in the past, by building on the expertise and infrastructure that already exists in Precision. We see opportunities for growth in the North American market, specifically in the strong western Canadian environment where we really have not focused on our growth over the past four years. Our plan for the coming two to three years will be to focus on these opportunities.

As we move into 2006 we are very excited about the opportunities facing Precision. With a workforce of approximately 6,500 employees, our investment in people will build upon the momentum we have already established in training, recruiting and orientation programs. As an organization we have enormous depth in our business; our assets and our people are aligned to take advantage of what lies ahead. Given our understanding of the business, our efficient business structure and the strong demand for services, we are well positioned to deliver another year of strong financial and operating results in 2006. Over the next 12 months our plan is to establish a track record of distributions to our unitholders, manage our business to take advantage of organic growth opportunities and remain ready to execute the right acquisition. With the support of a very strong team, we look forward to meeting the opportunities and challenges that 2006 will bring.

Gene Stahl
President and Chief Operating Officer
Precision Drilling Corporation
Administrator to Precision Drilling Trust
March 7, 2006

Officers

Doug J. Strong
Chief Financial Officer

Doug is a veteran of the oilfield services business, having spent 19 years in this business of which the last 12 years have been with Precision. Doug is a graduate of the University of Calgary where he received a Bachelor of Commerce degree in 1982. He earned his Chartered Accountant designation in 1985 and spent six years in public practice. In 1987 he joined Nabors Drilling International and spent the subsequent seven years as the International Controller working from Calgary and Houston. In 1994 he joined Cactus Drilling as Controller, which was acquired by Precision in 1997. His roles at Precision have included Senior Controller, Group Controller and most recently Chief Financial Officer.

Gene C. Stahl
President and Chief Operating Officer

Gene began his career with Precision in 1993 working on the rigs, followed by a series of marketing roles in a number of Precision's business units. In 2001 he was appointed Investor Relations Officer for Precision, responsible for communicating corporate strategy and performance to the public markets. In 2003 he led the consolidation and rebranding of a group of companies into what is today Precision Rentals. In early 2005 he was selected by the Board of Directors for his current position and brings solid communication skills, knowledge of the customer base, and a passion and an understanding of Precision's culture to his role as President and Chief Operating Officer.

Darren J. Ruhr
Vice President, Corporate Services and Corporate Secretary

Darren joined Precision in 1997 as Manager, Business Systems. Over the subsequent eight years, he assumed roles of increasing responsibility and set up many of the internal processes, business systems and technology that are at the heart of Precision's organizational structure. His experience in corporate infrastructure and information technology was gained through years of experience with the Bermuda Monetary Authority, Bermuda Electric Light Company and the Cayman Islands government. In November 2005 Darren assumed his current position as Vice President, Corporate Services and Corporate Secretary.

Vice Presidents

(Left to right):

Terry Sakamoto
Vice President Finance, Operations
31 years of service

Ron Berg
Senior Vice President, Operations
21 years of service

Alex MacAusland
Vice President, Operations
14 years of service

Dwayne Peters
Senior Vice President
22 years of service

Doug Evasiuk
Vice President, Marketing
12 years of service

Steve James
Vice President, Health, Safety & Environment
25 years of service

John Jacobsen
Vice President, Operations
40 years of service

Rolly Marks (not pictured)
Vice President, Operations
25 years of service

Operations Review

Contract Drilling Services

Precision Drilling is Canada's largest drilling contractor with a breadth of services that range from conventional and specialized contract drilling, rig manufacturing and refurbishing, procuring and distributing supplies, to providing camps and catering services to rig crews. Our fleet of 230 drilling rigs is technologically suited to the geology and geography of North America and our crews are among the best trained in the business. The hallmark of our approach is our emphasis on efficiency and the safety of our people.

Hydrocarbons trapped in deeper reservoirs require equipment such as this diesel electric triple rig which is rated to a depth of 4,000 meters.

Precision Drilling, a division

Overview

PRECISION DRILLING IS CANADA'S LARGEST drilling rig contractor with a 30 percent market share and a well-maintained modern fleet that consists of 230 rigs covering depth ranges from a few hundred meters to 6,700 meters.

Precision works with its customers to find better ways to explore for and develop oil and natural gas reserves in the Western Canada Sedimentary Basin (WCSB). The WCSB has a complex mix of energy reserves – oil sands, heavy oil, conventional oil, coal bed methane, deep gas and shallow gas – as well as challenging geography and weather conditions. As the basin matures, Precision is able to offer its customers greater efficiencies and the best technology through the provision of a diversified inventory of equipment and highly qualified and experienced employees.

Our strategy is to reinforce our existing strong asset base by adding new rigs that excel in the development of niche oil and natural gas production with broad application to conventional drilling rigs as well. We strive to set new performance standards for the industry.

Precision's Super Single® rigs exemplify this strategy and versatility. These rigs are superior in almost all shallow to medium depth well types and have niche capabilities that allow them to outperform in applications that include slant or directional drilling for multiple well programs from a single location (pad drilling). Now in their ninth generation of development, these rigs can be moved quickly, deploy a small footprint to minimize environmental impact and facilitate safety through the automation of pipe handling.

Another example is the Super Single® Light, a scaled down version of our highly successful Super Single® rig. These rigs are highly competitive in the shallow gas market, but are also equipped with features that make it much more efficient when it comes to drilling larger diameter wells or wells that have a directional component.

2005 Performance

Precision Drilling had one of the busiest and most successful years in its history in 2005. A strong global economy and high prices for crude oil and natural gas resulted in high levels of exploration and production activity in the WCSB. Poor weather conditions slowed activity at times in the first half of the year but the resulting pent-up demand for oilfield services drove activity to higher-than-normal levels in the second half of the year. This was coupled with a strong pricing environment; the sustained high level of activity is also partly a reflection of industry infrastructure improvements in areas of the WCSB that previously were only accessible during the winter season.

With the sale of our international drilling assets in 2005, Precision Drilling is now focused on the Canadian market.

Precision's Canadian drilling rig fleet achieved 46,937 operating days in 2005, compared to 41,625 in 2004. Precision's overall operating utilization rate in 2005 was 56 percent compared to 50 percent in 2004. In the last quarter of 2005, rig demand reached unprecedented levels and as a result we achieved record drilling days for the fourth quarter – 14,350 – surpassing the previous record of 13,983 days set in 1997.

Industry wide, there were a record 770 drilling rigs in the WCSB at the end of 2005 and a total of 100 additional rigs are estimated to come on stream over the next 18 months.

Precision's strategy is to have the best, most modern fleet in the oilfield services sector and to work closely with our customers to ensure that they have the rigs that meet their exploration and development requirements.

In late 2005, Precision announced a record level of investment with a capital budget estimate for 2006 of $285 million, of which $165 million is growth oriented and includes construction of 19 new drilling rigs over a 15-month period through to early 2007. This will further strengthen the breadth of our rig fleet – from shallow through to deep drilling. Precision had already secured long-term contracts for 17 of these rigs prior to announcing the capital expansion program.

Of these 19 rigs, two will be 1,200-metre Super Single® Lights, nine will be 4,000-metre diesel electric triples, and eight will be the 3,000-metre Super Single®. The versatility of the Super Single® is unmatched in the industry and its relatively small footprint gives Precision a distinct competitive advantage in the 2,500- to 3,000-metre well markets while allowing us to be competitive in the shallower markets.

2006 Outlook

The strong market momentum we witnessed in the second half of 2005 is expected to carry through well into 2006. Currently, the industry has a significant inventory of wells with no rigs assigned to them. We are also seeing a shift by our customers to deeper gas drilling of 3,000- to 4,000-metre depths, which is very service intensive for exploration, development and completion activity. Precision is well positioned to thrive in this very active and changing environment and we expect this to lead to another successful year.

There are, however, some limiting factors in the oilfield services industry as a whole, including the growing supply of rigs, a highly competitive recruitment market and seasonal manpower shortages. Precision is anticipating and managing these challenges. We are adding rigs based on confirmed customer demand and continuing to build strong, positive relationships with our customers. Our recruitment and ongoing personnel programs are designed to attract and retain employees through competitive compensation and training programs. In spite of these factors, we have managed extremely well and expect further progress going forward.

We will never cease focusing on building the strongest possible safety culture within Precision by ensuring the best equipment, the best working environment and the best operating practices. In 2006, senior management plans to spend even more time in the field talking to crews about safety in order to take our safety performance to the next level of excellence.

LRG Catering, a division

Overview

LRG CATERING (LRG) IS THE SECOND LARGEST PROVIDER of camp and catering services to the oil and natural gas industry in western Canada. LRG provides food and accommodation to personnel working at the well site, typically in remote locations. LRG has 92 conventional and base camps, representing about 20 percent of the camp and catering business in western Canada.

LRG's traditional five to six unit camps can lodge 20 field employees and feed up to 50 workers daily. Base camp modules can be expanded to feed and accommodate larger groups of workers when required.

LRG is based in Edmonton, Alberta and shares a facility with Columbia Oilfield Supply.

2005 Performance

LRG achieved record results in 2005 during a year when the high activity levels created shortages in oilfield accommodation.

The demand on service companies to support the expanded rig fleets in western Canada has increased the number of field employees, and the demand for accommodation. Customers responded by utilizing camps in areas where crews would normally have used hotels for accommodation. By the fourth quarter of 2005, LRG was running at full capacity as customers started to secure equipment for the winter.

2006 Outlook

LRG anticipates that demand for camp and catering services will remain strong in 2006 due to the expected continued growth in well count and drilling rigs. Assuming an ongoing shortage of hotel accommodation, LRG sees significant opportunity for the camp and catering industry in 2006. In response, LRG plans to increase its fleet in 2006 to 102 camps by adding 10 new camps.

Rostel Industries, a division

Overview

ROSTEL INDUSTRIES' (ROSTEL) CORE BUSINESS is the manufacture and refurbishment of custom drilling rig and service rig components. This uniquely positions Precision with in-house rig manufacturing capability.

In addition to quality construction and repair services, Rostel sustains high plant utilization by providing specialized services, including inspection and certification of critical drilling components such as overhead equipment, well control equipment and handling tools. Rostel's expertise extends to having its own in-house engineering group as well as an equipment sales group that specializes in the distribution of mud pumps and other imported products.

Rostel has enhanced its capabilities through shop expansion, new computerized machining equipment and expanding its professional engineering group.

Strategically, Rostel gives Precision the ability to set its own priorities in controlling the work performed on its equipment. Precision has direct control over scheduling and sets delivery objectives that meet customer requirements. Rostel designs and builds over 60 percent of the components for Precision's Super Single® drilling rigs. Rostel's operations are located in Calgary, Alberta.

2005 Performance

Rostel Industries gave Precision a competitive edge in 2005 by providing essential fabrication infrastructure at a time when the surging oil and gas sector in Alberta has created record demand at fabrication shops.

2006 Outlook

The booming fabrication sector in Alberta has resulted in a shortage of skilled trades people that began to have an impact on all fabricators in 2005. Rostel expects this trend to continue in the short-term and has factored these limitations into growth expectations for 2006.

Columbia Oilfield Supply, a division

Overview

COLUMBIA OILFIELD SUPPLY (COLUMBIA) IS A GENERAL SUPPLY STORE that procures, packages and distributes large volumes of consumable oilfield supplies to the contract drilling and well servicing industry. Most of Columbia's activity supports divisions of Precision, making it an essential extension of the purchasing process.

Columbia's key strengths are inventory management, demand anticipation and distribution excellence. Collectively, Precision and its customers benefit from Columbia's purchasing power, standardized product selection, streamlined business processes and coordinated distribution. Columbia's operations are based at its warehouse and distribution facility in Edmonton, Alberta.

Strategically, Columbia gives Precision the ability to set its own service level priorities and to standardize the products used on its equipment. Precision has direct control over supply distribution to field destinations and this enhances its reliability in the execution of operations.

2005 Performance

Columbia's activity levels were high during 2005 as a result of increased utilization from both the drilling and well servicing divisions of Precision that was brought about by continued favourable commodity prices and strong rig demand.

2006 Outlook

Columbia's growth is closely integrated with Precision's drilling and well servicing operations. As a result, in 2006, we anticipate Columbia to benefit from the continuing demand for oilfield services.

Operations Review

Completion and Production Services

Completion services begin when the drilling ends and involves preparing the well for production of oil and natural gas. Workover services are provided at any time during the producing life of a well. Given the diversity of conditions encountered in western Canada, Precision's completion and production services are equally diverse. Precision has a fleet of 237 service rigs, 26 snubbing units and rental equipment to maintain or enhance well productivity.

This freestanding mobile single service rig is working on a shallow natural gas well in central Alberta.

Precision Well Servicing, a division

Overview

PRECISION WELL SERVICING (PWS) IS CANADA'S LARGEST SERVICE RIG CONTRACTOR, providing customers with a complete range of oil and natural gas well services – completions, workovers, abandonments, well maintenance, high pressure and critical sour well work and re-entry preparation. Precision's service rig fleet completes all types of new wells and works over existing wells to optimize customers' oil and natural gas production.

Well completions are performed to prepare a well for the production of oil or natural gas. Production or workovers include scheduled preventative maintenance of wells and timely response on breakdowns for optimizing performance of a customer's producing well. With the ever increasing inventory of wells being drilled, there is greater opportunity for production and completion work.

In general terms, well completions account for one-third of service rig activity, and are dependent on drilling activity. Production work accounts for the remaining two-thirds of activity and is dependent on the total number of producing wells. In western Canada there are over 150,000 producing wells.

Precision Well Servicing made a significant investment in the service rig business through a major acquisition in October 2000. Up to that time, the division had received little capital reinvestment and was generating substandard profitability. Precision saw this as an opportunity to provide customers with a new value proposition. To this end, PWS has executed a program to upgrade and standardize systems and equipment. The division is now halfway through a five-year plan and has replaced over 40 pump trucks, 70 five-ton equipment transporters, and 75 combination trailers, and converted over 60 rigs to freestanding units. Freestanding service rigs enable safer operations and improved efficiency. PWS's vision is to put forward a quality fleet that can generate premium pricing in the industry.

Precision Well Servicing manages its fleet from four operating centres located in Grande Prairie, Red Deer and Lloydminster, Alberta and Estevan, Saskatchewan. These operating centres are supported by a Technical Centre situated in Red Deer. The 237 service rig operation consists of 65 skid double rigs and 172 mobile rigs, of which 111 are freestanding. The service rig fleet covers all oil and natural gas well depths by offering both single and double service rigs with excellent balance between mobile and skid designs. The composition of our fleet is ideally suited to the industry and PWS is well established in all of the core regional markets.

In southeastern Alberta and Saskatchewan, where conventional oil and natural gas fields are reasonably mature, PWS uses primarily freestanding mobile rigs. The freestanding rig reduces customer costs by providing faster rig-up and rig-out and eliminates the use of anchors that can lead to underground line strikes. The rigs provide an advantage on short production and completion jobs where the rig must be mobile.

Precision's fleet of skid doubles and 60 percent of the mobile doubles are situated in British Columbia and central and northwestern Alberta where there is a larger concentration of deeper oil and natural gas wells. Mobile double rigs are similar to mobile singles except they can handle deeper and heavier work. However, a majority of the mobile double rigs are not freestanding as the additional weight to convert them would limit movement during restricted road use periods. Skid double rigs are ideal for deeper natural gas wells which require multi-zone completion or re-completion. This type of work usually has the service rig working for a greater length of time, therefore the rig does not need to be moved as often.

A slant rig is capable of performing completion and production work on slant wells. In addition these rigs possess the versatility to perform as freestanding mobile singles. Precision Well Servicing's fleet of 15 slant rigs works primarily in the heavy oil fields of eastern Alberta.

2005 Performance

Precision Well Servicing had a very busy 2005 as customers tried to keep pace with record drilling activity. Unfavourable weather conditions dampened activity levels in the first half of the year, however, exceptional results were achieved in the last half of the year as activity levels rebounded. Demand picked up for both production maintenance and completions. With high commodity prices, customers re-worked wells with marginal production levels that had previously been shut in. Offsetting this was the lower demand for abandonment work, which is typically undertaken when the completions and production market softens.

Activity for the service rig fleet rose one percent to 477,232 operating hours, compared to 472,008 hours in 2004. Notably, more rigs ran in the fourth quarter of 2005 than in the first quarter and the month of October was busier than January. This is indicative of the strengthening market conditions experienced during the fourth quarter of 2005 to exit the year.

In 2005, Precision Well Servicing centralized its personnel department, basing it out of the Technical Centre. The efficiencies created by this reorganization increased the division's ability to respond quickly and effectively to manpower issues. PWS also introduced new recruiting initiatives, including an orientation session which introduces potential employees to industry practices. These initiatives proved to be timely as they allowed PWS to meet crewing requirements and achieve record activity levels in the fourth quarter.

2006 Outlook

Precision Well Servicing expects 2006 to be just as active as 2005, with industry demand and commodity pricing remaining strong. We anticipate that both completion and production work will increase during the year as customers try to increase production levels and focus on the backlog of completions.

We will continue with our multi-year service rig upgrade program that reinforces our core capabilities and strengthens competitiveness in all regions of the WCSB.

Due to current labour shortages of all skilled trades in Canada, retention of employees will continue to be critical to PWS in 2006. To help mitigate this, PWS has established a sixth man rotation to allow for continuous operations. This swinghand rotation allows crews to take their scheduled days off. We are also maintaining a pool of relief rig managers, which enhances the depth of experienced manpower. In addition, PWS has established an informal partnership with the Atlantic Petroleum Training College to hire graduates from their oilfield service classes.

Live Well Service, a division

Overview

LIVE WELL SERVICE (LIVE WELL) IS A LEADING PROVIDER of snubbing services for well completions and workovers in western Canada. Live Well's snubbing operations provide benefits to customers that enable increased well production rates and higher recoverable reserves. Snubbing operations are intended to reduce reservoir damage within a natural gas well. Snubbing is a procedure for moving tubing in and out of a wellbore while a well is under pressure.

Live Well operates 26 snubbing units – 25 hydraulic rig-assist units and one freestanding unit – which represents approximately 30 percent of the industry's total fleet. The units are operated out of Nisku, Grande Prairie and Brooks, Alberta.

Live Well's experience ranges from shallow natural gas to deep critical sour gas and has established a reputation as the industry leader in providing snubbing services for critical high pressure wells.

2005 Performance

Although drilling and other oilfield services were more active in 2005, the utilization of snubbing units remained constant as compared to the prior year. Live Well and the industry faced manpower shortages and was further challenged by evolving operating practices.

The shortage of experienced personnel is hindering growth in the snubbing business. In response, Live Well has actively managed relief crew levels, has promoted from within and most noteably is in the process of developing an in-house training program complete with a test training well to simulate operating conditions.

Live Well broadened its fleet by developing and introducing its first freestanding unit which incorporates some of the technology developed for the Super Single® rigs. This unit does not require a service rig to be on the well location. It is designed to be self-sufficient with automated tubular handling and numerous control features to further enhance safe, cost effective snubbing operations.

2006 Outlook

Live Well expects demand for its services to grow in 2006 as natural gas exploration activity increases and as industry recommended practices are modified.

In 2006, Live Well will focus on recruitment and training of crews to ensure it has the right crew levels to meet operating demand. This focus, combined with Live Well's upgrade of existing snubbing equipment, will enable the division to promote a safe working environment and sustain its role as a reliable and efficient provider of snubbing services.

Precision Rentals, a division

Overview

PRECISION RENTALS IS ONE OF THE LARGEST oilfield rental companies in western Canada, providing a diverse range of equipment to oil and natural gas producers through a wide network of field offices and stocking points.

Precision Rentals has become a leading provider of oilfield rental equipment by staying close to its customers and responding to their rapidly changing requirements. As a result, Precision Rentals has evolved considerably over the past several years, focusing its operations under the Precision Rentals brand, streamlining operations and broadening its service offering to better serve customer needs.

The rental equipment offered by Precision Rentals covers a range of customer needs throughout the oil and natural gas drilling, completion and production process. Equipment is marketed through three product categories: surface equipment; tubulars and well control equipment; and wellsite accommodations.

The surface equipment category is primarily associated with fluid handling and includes tanks, separators, invert systems, matting, valves and other tools.

Tubulars and well control equipment are designed for unique well specifications. Tubular equipment is specialty-sized drill pipe; well control equipment includes blowout preventers and associated assemblies.

Drilling operations can go around the clock until a well is finished, making wellsite accommodations a necessity. Referred to as a wellsite unit, Precision Rentals' accommodations provide offices and lodging for senior personnel. These units are built with heavy-duty skids to facilitate frequent moves.

2005 Performance

Precision Rentals had a record year in 2005 with strong demand, utilization and prices driven by the high level of exploration and production activity. This led to standby charges for highly sought after equipment. It was a particularly good year for wellsite accommodations due to a shortage of offsite accommodation.

Precision Rentals implemented enterprise-wide software during the year to support its multi-product delivery strategy and to standardize and improve the way services are rendered. This initiative has streamlined pricing, equipment dispatch, delivery and tracking as well as transaction processing.

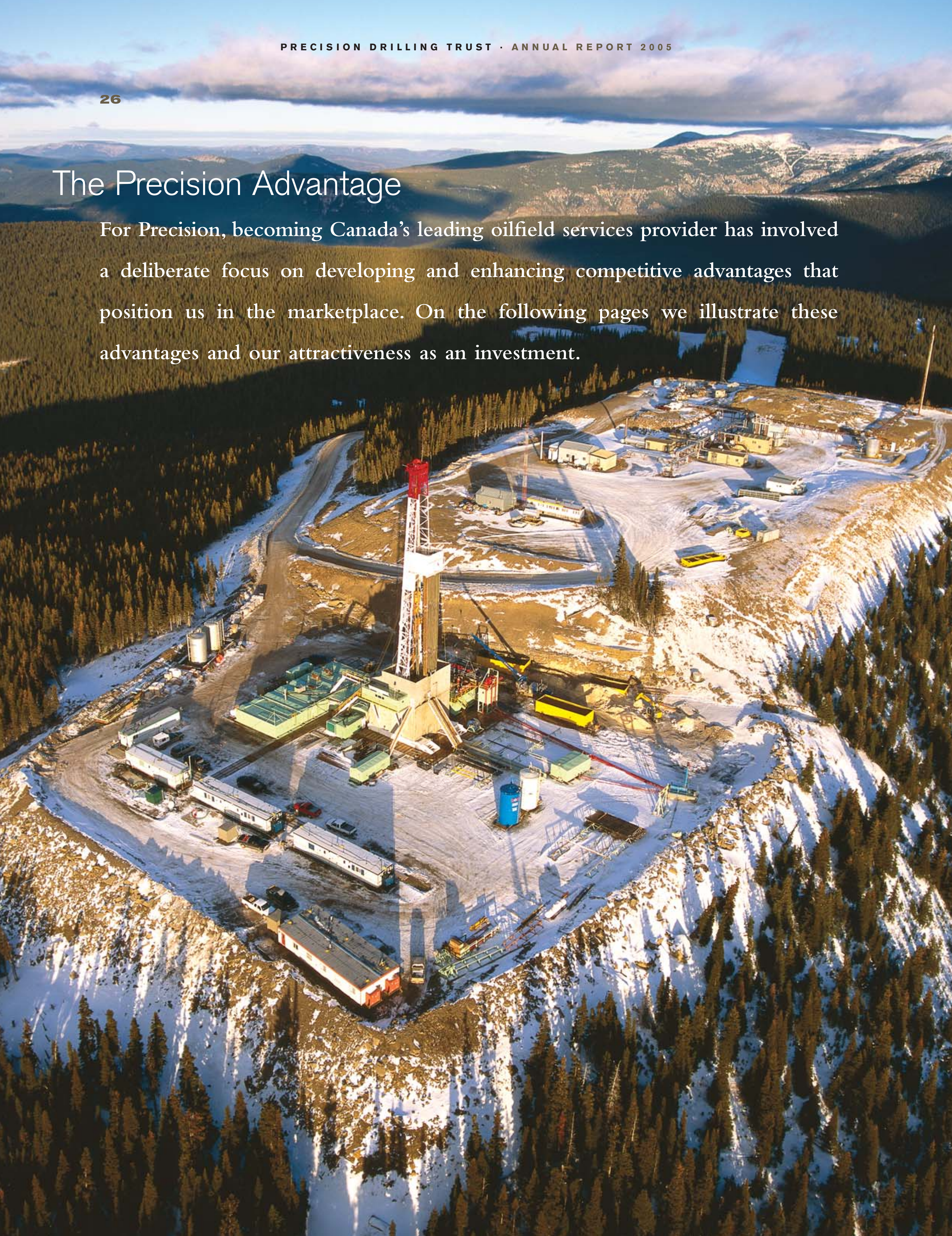
2006 Outlook

Precision Rentals expects demand for its product lines to remain high in 2006 and will continue to focus on customer relationships and equipment offerings. The operating specifications for the procurement of new equipment and refurbishment initiatives will be established through personnel situated at the Technical Centre in Nisku, Alberta. Demand for wellsite accommodations is expected to remain high, in line with drilling activity.

Precision Rentals is working to strengthen service delivery and product mix with a view to optimize utilization.

The Precision Advantage

For Precision, becoming Canada's leading oilfield services provider has involved a deliberate focus on developing and enhancing competitive advantages that position us in the marketplace. On the following pages we illustrate these advantages and our attractiveness as an investment.



At our pre-employment rig orientation, we simulate many aspects of drilling that an employee will experience – from drill floor activities to evacuation procedures.

PRECISION'S SAFETY CULTURE is second to none in the Canadian oilfield services industry. Over the past decade, we have initiated and promoted a Target Zero culture throughout the entire organization with a goal of zero injuries. We believe this mandate supports us in many ways, from recruiting to insurance. More importantly, we are committed to provide the safest environment possible for our employees. It is the right thing to do.

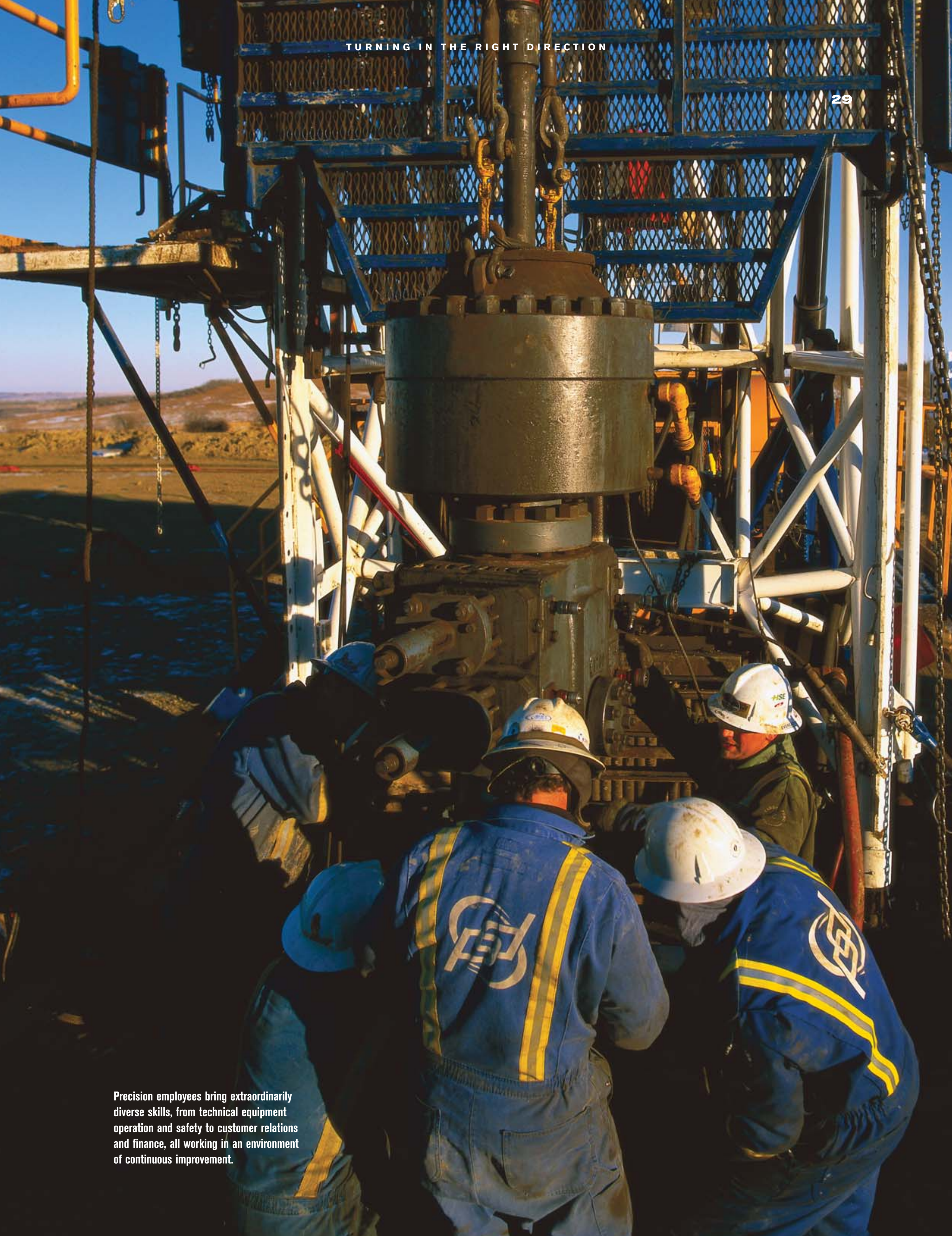
With strong emphasis on employee retention, Precision has developed an experienced workforce that is knowledgeable and efficient.

Precision draws on its expertise to modify and design its equipment using its knowledge to make equipment that is safer and more effective.

Precision applies tried and true technology and proven procedures to ensure reliability in the field.

PRECISION'S ABILITY TO EXECUTE and deliver efficient services to customers is critical to our continued success. One of the ways we achieve this is by applying the latest technology. The success of our in-house designed and built Super Single® and Super Single® Light rigs are a testament to our dedication to these efforts. The Super Single® platform is considered by many of our customers to be the most efficient land rig available.

This new, state-of-the-art Super Single® Light represents the ninth generation of this Precision-designed rig.



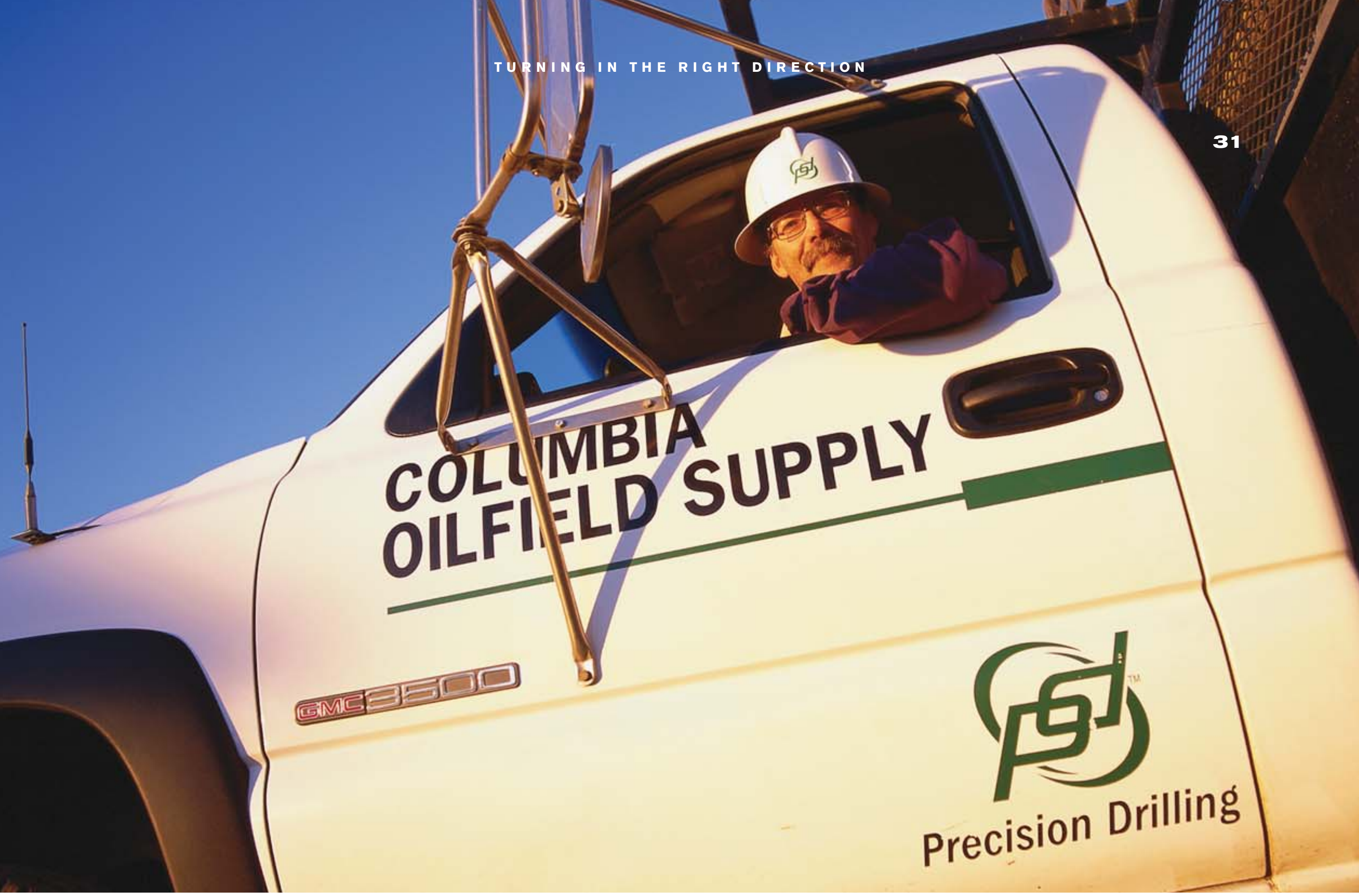
Precision employees bring extraordinarily diverse skills, from technical equipment operation and safety to customer relations and finance, all working in an environment of continuous improvement.

As drilling technology evolves, so do the adaptations to service rigs such as this slant rig used on heavy oil wells.

Demand for drilling rigs in 2005 was intense and Precision is building 19 additional rigs over the next 15 months to supplement its fleet of 230.

Mobility is a key characteristic of Precision's service rig fleet, allowing us to respond quickly to customer needs.

PRECISION OPERATES ITS CONTRACT DRILLING and completion and production segments through operating centres where all activities are coordinated. Integrated business systems enable us to track our inventory so that we know at any time where our equipment is located. Our operating centres are supported by three technical centres that manage fleet resources – from personnel and training to rig equipment.



PRECISION PROVIDES CUSTOMERS THE BENEFITS of size and reach – the size of our oilfield services fleet is substantial – 230 drilling rigs and 237 service rigs – representing the largest and most technically diverse fleet in Canada. We supplement our fleet with complementary and integrated services, with a resulting level of service that provides the customer with a complete package from the drilling rig through camp and catering support to production services. We operate across the Western Canada Sedimentary Basin, a 1.5 million square kilometre area that covers essentially all the on-shore crude oil and natural gas producing regions of Canada.

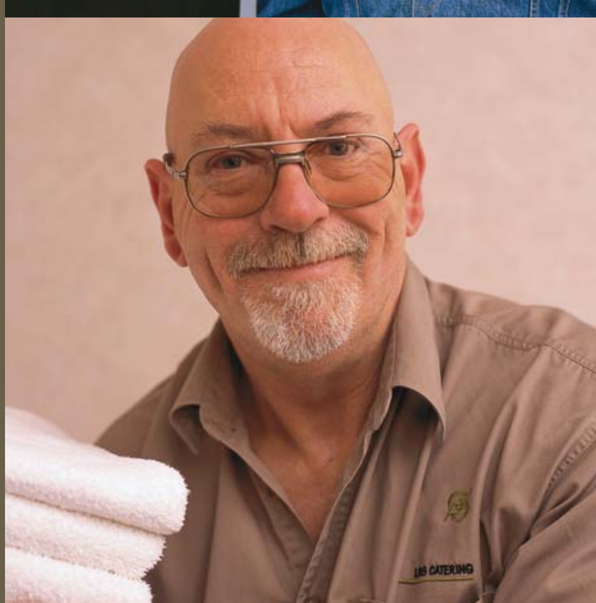
At Columbia Oilfield Supply, the knowledge of wellsite requirements is combined with an understanding of integrated warehouse management and distribution systems.

Time is money in the drilling business and wells that are not producing are not generating cash flow for our customers. We have developed internal capacity for equipment repair, certification and maintenance to minimize downtime.

OUR PEOPLE HAVE BUILT STRONG, long-term relationships with our customers, working closely with them to develop and provide value-added services. We create value for our customers by delivering on the commitments we make. It all starts with our people.

Many of our employees have been with Precision for over 20 years.

Providing accommodation and food services is an important value-added service for customers.



Oilfield working conditions can be challenging, but we make the living environment as comfortable as possible.

Precision's safety mission is captured in our "Target Zero" vision. It's people… it's personal.

Safety Management

WHEN IT COMES TO SAFETY, Precision wants to "make it personal". We want every employee to think about their personal safety on and off the job starting with driving to the job site safely, working safely through the day's activities and returning home safely.

Equally, we want every employee to think about the safety of their co-workers, as well as the safety of our contractors and customers.

For Precision, safety is all about our people – our people taking ownership for their own safety, and making the safety of the people around them their primary concern. As a leader in the Canadian oilfield services industry, Precision believes that each of our employees can be a safety leader on the job. Safety is an absolute core value that all of our employees strive to apply to every aspect of their job, every single day.

Targeting zero

We are building our safety culture on the strong foundation of our all-encompassing Target Zero vision where "zero injuries" is the only acceptable goal.

Target Zero is a vision that says our workplace and organization can be free from injuries, equipment damage and environmental impact.

Our focus on Target Zero is making an impact. Since 2002, employees of the Precision Drilling division have reduced their Total Recordable Injury Frequency (TRIF) by over 40 percent. TRIF is an industry standard measure of safety performance. It measures the number of work related injuries that require a certain level of medical treatment per 200,000 hours worked, including lost time injuries, restricted work and medical treatments. A total of 228 drilling and service rigs stayed recordable incident free in 2005 as did 83 camps, 15 snubbing units and eight shop facilities. These statistics prove that our vision is achievable and inspire us to passionately pursue Target Zero.

However, 2005 also provided sad reminders that we still have work to do. Tragically, we lost three of our colleagues in 2005: one following an explosion at a rig site near Brooks, Alberta; a second at a third party warehouse in Edson, Alberta; and the third in a pedestrian incident in Red Deer, Alberta. All of these incidents motivate us to improve our ability to anticipate and reduce risks.

Safety in numbers

The old saying "there's safety in numbers" is certainly true when it comes to safety in the workplace. Our first line of defence against workplace injuries begins with a strong emphasis on safety and communication.

Our approach to safety starts with safety meetings – daily, monthly and quarterly, to deal with the challenges and improvement opportunites in the workplace. These include meetings with the visible presence of Precision's senior management addressing safety at rig sites and other locations. These include team meetings before a drilling rig crew starts a job. These are informal one-on-one meetings between an individual employee and their supervisor.

In 2005, Precision's employees – primarily at field locations – held 182,000 safety meetings. It's an impressive number by anyone's standards.

Typically, one of these safety meetings will involve a five or six man rig crew getting together before conducting a job to discuss the risks involved in the operation and the procedures required to execute the job safely. Every safety meeting is documented, reported and tracked so that our Health, Safety and Environment (HSE) department can monitor performance and identify safety challenges and opportunities for improvement.

Precision's senior management regularly visit field locations to meet front line workers to discuss safety issues. These visits demonstrate senior management's commitment to safety and provide an opportunity for field personnel to communicate their safety achievements, goals and challenges in achieving Target Zero. "Safety Stand-Down Week" is an industry initiative established by the Canadian Petroleum Safety Council, a practice that Precision had been conducting for several years. This initiative has become entrenched and at Precision has been extended over the first two months of the year to reach a greater number of employees. In 2005, senior management facilitated "Safety Stand-Down" sessions with over 2,700 employees.

Creating safety leaders

Precision provides training programs to build employee awareness about health, safety and the environment and its Target Zero corporate culture. In order to reach as many people as possible, we hold courses at our training centres and in the field that cover a wide range of topics including observation and communication, driver training, hazard identification and control, and environmental awareness.

Our statistics show that over 90 percent of all recordable injury incidents directly relate to the behaviour of people. That is why Precision introduced its unique Observation and Communication Workshop. A key component of the Target Zero vision, the course is designed to prevent incidents by improving employee observation and communication skills regarding safety at the job site.

The workshop teaches employees how to monitor their own safety behaviour as well as that of their co-workers. Employees also learn how to communicate the safety issues they observe through positive, open and respectful dialogue with fellow employees and through formal reports, which allow Precision's HSE professionals to track, report and recommend improvements. The ultimate goal of the Observation and Communication Workshop is to provide employees with effective tools for recognizing and effectively responding to hazards. A major goal of the workshop is to show every employee how to become an individual leader in safe work practices by:

- leading by example;
- never accepting that losses "just happen";
- continually focusing on identifying and reducing risk;
- recognizing, intervening and correcting unsafe behaviour;
- clearly communicating health, safety and environmental goals, expectations and intentions to everyone; and
- fostering a workplace culture where people feel comfortable and compelled to stop and assess a job if it appears unsafe.

Observation and Communication Workshops have proven to be very effective in helping to reduce injuries. In 2005 alone, Precision recorded 90,000 observations by employees – pro-active measures, for Precision to identify and correct "at-risk" behaviour.

Back to basics

Precision is focused on getting "back to basics", which means building upon core elements within our HSE management system. This will be accomplished by: improving safety management, training and communication; ensuring that senior management spend even more time in the field talking to crews about safety; improving the sharing of HSE information across the organization and within industry; and furthering our work with customers to develop new safety initiatives. In communicating our "back to basics" theme, we are telling our employees that we want them to:

- take safety ownership through active participation;
- observe and communicate, reinforcing safe work and correcting at-risk activities;
- understand the task and know when to step back;
- arrive at the job site fit for work;
- work closely with third-party services, ensuring that everyone understands the roles and responsibilities of each person on site;
- drive to survive by wearing seat belts, reducing speed to fit road conditions and staying alert; and
- enforce – with no deviation – all critical safe work procedures.

The core message of "back to basics" is that people are our priority and that safety is a 24/7 responsibility of everyone who works for and with Precision.

Environmental Management

PRECISION HAS DEVELOPED A COMPREHENSIVE environmental management system which monitors compliance with environmental standards. Environmental impact occurs in the field where Precision employees operate equipment, travel and often stay in remote camps. Precision has established standards of environmental management to ensure that damage to the environment is minimized.

Precision's investment in environmental management begins with equipment design and upgrade, where modifications are made with environmental considerations in mind. For example:

- rigs are designed to create a smaller footprint to minimize ground disturbance;
- engine upgrades are made to improve fuel efficiency, reduce emissions and suppress noise;
- equipment is designed to contain fluids in spill trays under line pipes, in catch pans under the rig floor, in surface tanks rather than sumps and in catch trays on all pumps; and
- operating support centres have secondary containment for above ground storage compartments and environmental spill response equipment and supplies for clean up procedures.

In the event an environmental incident occurs, it is reported, investigated, remediated and analyzed to enable the continual improvement process.

Our investment in environmental management is ongoing, with a focus towards:

- improving our environmental management system;
- providing education to crews and supervisors;
- conducting environmental compliance audits;
- maintaining a high level of housekeeping standards on our equipment;
- performing environmental review during management visits to the field; and
- ensuring environmental incidents are reported, investigated and remediated.

Community Relations

PRECISION BELIEVES IN CREATING A POSITIVE IMPACT in the community by developing partnerships with our employees and the communities in which we work and live. We are committed to giving back to our communities by supporting a variety of charitable organizations with an emphasis on those charities that are important to our employees and customers.

In 2005, our donations program fulfilled close to 65 percent of requests received from our employees, customers, local communities, and registered charitable organizations. These requests fell into six categories, including health and welfare, education and literacy, arts and culture, civic and community, environmental, and sports and recreation. In order to provide ongoing support, certain donations are made over a three to five year period, including those to organizations such as the Shock Trauma Air Rescue Society (STARS) and the Alberta Children's Hospital Foundation. Precision also participates in local United Way campaigns and through our "Gifts-in-Kind" program, we assist not-for-profit organizations with furniture and computer needs.

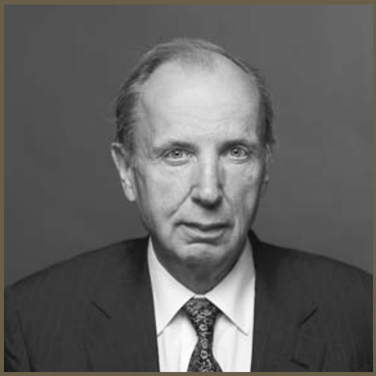
Precision is also proud to sponsor a number of events throughout the year that provide proceeds to charitable organizations as well as various events which raise funds for cultural and environmental conservation groups.

In addition to the support provided by Precision, our employees and their families are equally committed to the communities in which they live and work. This commitment includes volunteering for local charities, participating in events supporting medical and wellness research, local arts programs and coaching youth sports teams.

Precision also recognizes the value of a post-secondary education by supporting children of employees through its Employees' Dependent Scholarship Program. Scholarships are awarded to applicants pursuing studies at universities and colleges in technical or arts facilities who demonstrate superior academic performance, work experience and community leadership. Precision also contributes to scholarships at the Southern Alberta Institute of Technology in Calgary, Alberta and Grant McEwan Community College in Edmonton, Alberta.

TRUSTEES AND DIRECTORS

W.C. (Mickey) Dunn
Director



Frederick W. Pheasey
Director

Brian A. Felesky, CM, Q.C.
Director

Robert L. Phillips
Director

Robert J.S. Gibson
Trustee and Director

Hank B. Swartout
Chairman, CEO
and Director

Patrick M. Murray
Trustee and Director

H. Garth Wiggins
Trustee and Director

W.C. (Mickey) Dunn(2)(3) Calgary, Alberta
Director
Mr. Dunn is the Chairman of the Board for True Energy Trust, a founding shareholder and director of Rentcash Inc. and a director of Vero Energy Inc. Previously, Mr. Dunn was President and Chief Executive Officer of Cardium Service and Supply Limited, Cardium Tool Services Inc. and Colorado Silica Sands Inc. He has been a Director of Precision since September 1992.

Brian A. Felesky, CM, Q.C. Calgary, Alberta
Director
Mr. Felesky is a partner at Felesky Flynn LLP, a law firm specializing in tax and trust law. Mr. Felesky is a Vice-Chair, Canada West Foundation, a member of the Senate of Athol Murray College of Notre Dame, a member of the Board of Governors for the Council for Canadian Unity, a Board member of the Calgary Stampede Foundation and the Calgary Arts Development Authority. Mr. Felesky also serves on the Board of Suncor Energy, Inc., Epcor Power LP and Fairquest Energy Limited. He has been a Director of Precision Drilling Corporation since December 1, 2005.

Robert J.S. Gibson(1)(3) Calgary, Alberta
Trustee and Director
Mr. Gibson has been President of a private investment firm, Stuart & Company Limited, since 1973 and is also Managing Director of Alsten Holdings Ltd. He has been a Director of Precision since June 1996.

Patrick M. Murray(1) Dallas, Texas
Trustee and Director
Mr. Murray is Chairman and CEO of Dresser Inc., a member of the American Petroleum Institute, and the Society of Petroleum Engineers, a member of the Board of the World Affairs Council of Greater Dallas, the Valve Manufacturers Association, the Petroleum Equipment Supplier Association and a director of Houston-based Harvest Natural Resources, Inc. He has been a director of Precision since July 2002.

(1) Audit Committee Member
(2) Compensation Committe Member
(3) Corporate Governance and Nominating Committee Member

Frederick W. Pheasey(2)(3) Edmonton, Alberta
Director
Mr. Pheasey is the founder and continues as a director of Dreco Energy Services Ltd., which was acquired by National Oilwell, Inc. in 1997. He served as Executive Vice President and a director of National Oilwell, Inc. from 1997 to 2004 and continued to serve on the Board of National Oilwell, Inc. to May 2005. Mr. Pheasey has been a Director of Precision since July 2002.

Robert L. Phillips(2)(3) Vancouver, British Columbia
Director
A member of Precision's Board of Directors since May 2004, Mr. Phillips was most recently President and Chief Executive Officer of BCR Group of Companies from 2001 to 2004. Previously, he was Executive Vice President at MacMillan Bloedel Limited (1999 - 2001), President and Chief Executive Officer of PTI Group Inc. (1998 - 1999) and President and Chief Executive Officer of Dreco Energy Services Ltd. (1994 - 1998). Mr. Phillips also serves on the Board of several major Canadian corporations including Epcor Utilities Inc., Canadian Western Bank and MacDonald, Dettwiler and Associates Ltd.

Hank B. Swartout Calgary, Alberta
Chairman, CEO and Director
Mr. Swartout currently holds the position of Chairman and Chief Executive Officer of Precision Drilling Corporation. For the period from 1985 through 2005, Mr. Swartout held the position of Chairman, President and Chief Executive Officer of Precision Drilling Corporation. Previously, he held positions as Manager of Bawden Western Oceanic Offshore, Vice President of Rig Design and Construction for Dreco, and Manager of Construction for Nabors Drilling Canada.

H. Garth Wiggins(1) Calgary, Alberta
Trustee and Director
Mr. Wiggins has been the President of a private investment firm, Kamloops Money Management, since 1993. He is also currently a Principal at Kenway, Mack, Slusarchuk, Stewart Chartered Accountants. Previously, he was Vice President Finance and Chief Financial Officer of Tri Link Resources Ltd. and a partner of Farvolden, Wiggins, Balderston Chartered Accountants. He has been a Director of Precision since September 1997.

Corporate Governance

Precision has recently updated its corporate governance policies and procedures to reflect the conversion of our business to an income trust structure. Precision Drilling Trust (the "Trust") was created by a declaration of trust dated as of September 22, 2005 and is governed by a board of trustees comprised of three members. The board of trustees has delegated a number of its duties to Precision Drilling Corporation (the "Corporation"), who is the administrator of the Trust. The Corporation is governed by a board of eight directors and managed by our executive management team. Our investors hold units of the Trust or, if eligible to do so, Class B Limited Partnership Units of Precision Drilling Limited Partnership ("PDLP"), a subsidiary of the Trust, whose units are the economic equivalent of, and exchangeable on a one-for-one basis into, units of the Trust. Holders of units of the Trust and PDLP are herein referred to as "Unitholders".

Our corporate governance practices meet the requirements of National Instrument 58-101 – *Disclosure of Corporate Governance Practices,* National Policy 58-201 – *Corporate Governance Guidelines,* the relevant provisions of the United States Sarbanes-Oxley Act of 2002 and the United States Securities and Exchange Commission regulations. The units of the Trust are listed for trading on the Toronto Stock Exchange and the New York Stock Exchange. A complete description of our corporate governance practices is set out in the Proxy Statement and Management Information Circular of the Trust dated March 15, 2006 (the "Circular") under the heading "Statement of Corporate Governance Practices". The Circular is available on SEDAR at www.sedar.com and on our website at www.precisiondrilling.com.

Independence of the Trustees and Directors

On the recommendation of the Corporation's Corporate Governance and Nominating Committee, the board of directors has affirmatively determined that six of the eight directors are independent. Independent directors have no direct or indirect material relationship with the Trust or the Corporation within the meaning of Multilateral Instrument 52-110 *Audit Committees.* Hank B. Swartout, the Chief Executive Officer of the Corporation and the Chairman of the board of directors, is not independent because of his executive office. Brian A. Felesky is not independent because he is a partner at Felesky Flynn LLP, a law firm that provides tax advice to the Trust and the Corporation. The independent directors have concluded that Messrs. Swartout and Felesky's lack of independence does not impair the board of directors' ability to function independently of management. Rather, Mr. Swartout's extensive knowledge of the Corporation's business, and Mr. Felesky's broad business experience and in-depth knowledge of tax laws, are of significant benefit to the operation of the Corporation's board of directors.

The mandates of the board of trustees and the board of directors are available on our website under the heading "Corporate Governance" at www.precisiondrilling.com and are attached as Schedule "A" to the Circular.

The three original trustees will be nominated for election at the annual meeting of Unitholders on May 9, 2006. In addition, Unitholders will be asked to approve the appointment of the eight current directors to the board of directors of the Corporation and to appoint KPMG LLP as the Trust's auditors.

Responsibilities of the Board of Trustees and Board of Directors

The board of trustees and the board of directors are both comprised of experienced, proven leaders representing a diverse group of professions and a broad range of industries.

The board of trustees has overall responsibility and authority to manage the Trust's investments. Effective November 7, 2005, the board of trustees delegated responsibility for the management and administration of the Trust's operational matters to the Corporation pursuant to an administration agreement between the Trust and the Corporation.

In addition to ensuring that the Corporation discharges its obligations as administrator to the Trust, the board of directors is responsible for the stewardship of the business and affairs of the Corporation. As such, the board of directors has responsibility to oversee the conduct of the Corporation's business, provide direction to management and ensure that all major issues affecting the business and affairs of the Corporation are given proper consideration.

Communications Policy

The board of directors has adopted a written communications policy which governs its communications with the media, continuous disclosure obligations to applicable securities commissions, and public reporting requirements to Unitholders and the investment community. Issues arising from the application of the communications policy are dealt with by a committee of the Corporation's executive officers consisting of Hank B. Swartout, the Chief Executive Officer, Doug J. Strong, the Chief Financial Officer, Gene C. Stahl, the President and Chief Operating Officer and Darren J. Ruhr, the Vice President, Corporate Services and Corporate Secretary.

Communication with the Board of Directors

Unitholders and other interested parties may communicate with the board of directors by contacting the Vice President, Corporate Services and Corporate Secretary at the head office of the Corporation. All communications received will be reviewed and delivered to the appropriate members of the board of directors, including the Chairman of the board and the chairmen of applicable committees. The process for communicating with the board of directors is set out on our website at www.precisiondrilling.com.

Business Conduct and Ethics

The board of directors has adopted a Code of Business Conduct and Ethics (the "Code") expressing the fundamental principles that guide the directors in their deliberations and shape the Corporation's business activities. The Code applies to directors, members of our executive management team and all of our employees. The Code incorporates our guiding principles: upholding the law, honouring trust, objectivity, confidentiality, integrity and corporate and individual responsibility. The Code also creates a frame of reference for dealing with sensitive and complex issues and provides for accountability if our standards of conduct are not met. Our executive officers have acknowledged that they have read, understood and will abide by the Code. The text of the Code can be found under the heading "Corporate Governance" on our website at www.precisiondrilling.com.

The board of trustees has adopted the principles set out in the Code of Business Conduct and Ethics of the Corporation and is currently in the process of working with the board of directors of the Corporation to adopt a Joint Code of Business Conduct and Ethics, which would apply to the activities of the Trust, PDLP and the Corporation.

Whistleblower Policies

The Corporation's Audit Committee has established procedures for the confidential receipt and handling of complaints regarding accounting and auditing irregularities and breaches of the Code including the establishment of a "Whistleblower Hotline", which can be accessed anonymously through the internet, by email or voicemail. Additional information about the Whistleblower Hotline and the confidential or anonymous submission of complaints can be found on our website at www.precisiondrilling.com.

Committees of the Board of Directors

To assist it in discharging its responsibilities more effectively, the board of directors has established three committees: the Audit Committee, the Corporate Governance and Nominating Committee and the Compensation Committee. Each committee is comprised of independent directors. From time to time, the board of directors also creates special or ad hoc committees to address matters of importance to the Corporation.

The members of the Audit Committee are Patrick M. Murray (Chairman), H. Garth Wiggins and Robert J.S. Gibson. The Audit Committee held six meetings in 2005.

The members of the Corporate Governance and Nominating Committee are Robert J.S. Gibson (Chairman), W.C. (Mickey) Dunn, Frederick W. Pheasey and Robert L. Phillips. The Corporate Governance and Nominating Committee held five meetings in 2005.

The members of the Compensation Committee are Frederick W. Pheasey (Chairman), W.C. (Mickey) Dunn and Robert L. Phillips. The Compensation Committee held six meetings in 2005.

In 2005, the board of directors formed a Special Committee of independent directors to consider and advise the board of directors on the reorganization of the business of the Corporation into an income trust. The members of the Special Committee were H. Garth Wiggins (Chairman), W.C. (Mickey) Dunn, Frederick W. Pheasey, Robert J.S. Gibson, Patrick M. Murray and Robert L. Phillips. The Special Committee held three meetings in 2005.

The full text of each committee's Charter and Terms of Reference is available under the heading "Corporate Governance" on our website at www.precisiondrilling.com.

Compensation of Trustees and Directors

The Corporation's Compensation Committee periodically reviews the adequacy and form of compensation for trustees and directors. The board of directors considers the commitment, comparative fees, responsibilities and potential liabilities of directors and trustees in determining remuneration. In fiscal 2005 the trustees were paid an annual retainer of US$1,432 for the period commencing on November 7, 2005 and ending on December 31, 2005, and fees of US$1,000 per meeting for attendance in person and US$500 for attendance by telephone.

The Corporation's directors were paid an annual retainer of US$16,000 in 2005 and fees of US$1,000 per meeting for attendance in person and US$500 per meeting for attendance by telephone. The Chairmen of the Compensation Committee and the Corporate Governance and Nominating Committee were paid an additional annual retainer of US$5,000 and the Chairman of the Audit Committee was paid an annual retainer of US$10,000. Members of the Audit Committee receive fees of US$2,000 per meeting for attendance in person and US$500 for attendance by telephone for all meetings of the Audit Committee. The Corporation appoints an independent director to serve as Lead Director each quarter and during that quarter the individual appointed receives an additional payment of US$2,000 per meeting. Trustees and directors who are required to travel more than three hours by air to attend meetings are paid a travel allowance of US$1,000 in addition to their travel expenses.

2005 Meeting Attendance and Compensation

Director	Board Meetings Attended(1)	Committee Meetings Attended(1)	Board Fees(2) US$	Committee/ Board Retainer US$	Chair Retainer US$	Special Committee US$	Travel Allowance US$	Total US$	Expenses Paid(1) CDN$
W.C. (Mickey) Dunn(6)	11/12	14/14	24,000	16,000	–	17,184	–	57,184	3,888
Brian A. Felesky, CM, Q.C.(4)	1/1	–	1,000	1,333	–	–	–	2,333	–
Robert J.S. Gibson(7)	12/12	14/14	29,500	16,000	5,000	17,184	–	67,684	1,139
Patrick M. Murray(8)	12/12	9/9	30,500	16,000	10,000	17,184	15,000	88,684	37,405
Frederick W. Pheasey(9)	11/12	13/14	22,500	16,000	5,000	17,184	–	60,684	9,538
Robert L. Phillips(10)	12/12	14/14	25,000	16,000	–	17,184	–	58,184	14,670
Hank B. Swartout(5)	12/12	–	–	–	–	–	–	–	–
H. Garth Wiggins(11)	12/12	9/9	36,500	16,000	–	21,480	–	73,980	95

Notes:
(1) Attendance in person or by telephone.
(2) Includes Lead Director fees, attendance at Strategic Planning Meetings and attendance at meetings held with management on behalf of the Board.
(3) Expenses that are incurred by each Director related to Board or Committee meeting attendance are reimbursed.
(4) Mr. Felesky was appointed as a Director on December 1, 2005 and attended 1/1 Board meeting.
(5) Mr. Swartout is a member of Management, therefore does not receive retainer or meeting fees.
(6) Mr. Dunn is a member of the Compensation Committee, Corporate Governance and Nominating Committee and Special Committee.
(7) Mr. Gibson is a member of the Corporate Governance and Nominating Committee, Audit Committee, Special Committee and is a Trustee.
(8) Mr. Murray is a member of the Audit Committee, Special Committee and is a Trustee.
(9) Mr. Pheasey is a member of the Compensation Committee, Corporate Governance and Nominating Committee and Special Committee.
(10) Mr. Phillips is a member of the Compensation Committee, Corporate Governance and Nominating Committee and Special Committee.
(11) Mr. Wiggins is a member of the Audit Committee, Special Committee and is a Trustee.

2006 Fees

As part of its periodic review of compensation, the Compensation Committee has recommended, and the board of directors and the board of trustees have each approved, the following fees in Canadian funds for 2006:

Director's Annual Retainer	$30,000
Audit Committee Chair – Annual Retainer	$12,500
Compensation Committee Chair – Annual Retainer	$6,250
Corporate Governance & Nominating Committee Chair – Annual Retainer	$6,250
Audit Committee Meeting Fee	$2,500
Other Committees and Board Meeting Fees	$1,250
Lead Director Fee (per quarter)	$2,500
Trustee's Annual Retainer	$10,000
Trustee's Meeting Fees	$1,250

The fees set out above are to be paid quarterly in arrears commencing on March 31, 2006. The Lead Director appointed during a fiscal quarter is paid normal meeting fees for attendance at any meetings of Committees of the board.

The Compensation Committee is responsible for reviewing the compensation of the Corporation's executive management team and setting compensation policies applicable to the Corporation. For more information, please refer to the "Report on Executive Compensation" contained in the Circular.

Unit Ownership Guidelines

The Compensation Committee has recommended and the board of trustees and the board of directors have approved unit ownership guidelines applicable to the trustees, directors, executive officers and management. Pursuant to the guidelines, directors and trustees are requested to hold units of the Trust or PDLP equivalent to four times the amount of their respective annual retainers; the Chief Executive Officer, President, Chief Financial Officer and each of the Vice Presidents are expected to hold units of the Trust or PDLP equivalent to five times their respective base salaries; and the next reporting level of senior employees are expected to hold units of the Trust or PDLP worth three times their respective base salaries. The Compensation Committee has recommended that individuals reach these ownership guidelines within five years.

Trustees and Directors Holdings

	Units of Precision Drilling Trust(1)	Class B Limited Partnership Units of PDLP(1)
W.C. (Mickey) Dunn	15,600	Nil
Brian A. Felesky, CM, Q.C.	1,400	Nil
Robert J.S. Gibson	63,200(2)	Nil
Patrick M. Murray	40,000	Nil
Frederick W. Pheasey	44,000	Nil
Robert L. Phillips	5,000(3)	Nil
Hank B. Swartout	1,413,579(4)	829,788(5)
H. Garth Wiggins	21,100	Nil

Notes:

(1) As at February 28, 2006.

(2) 8,000 of the units are held by Stuart & Company Limited, a company controlled by Mr. Gibson and 10,000 units are held in a RRSP.

(3) 2,000 of the units are held by R.L. Phillips Investments Inc., a company controlled by Mr. Phillips.

(4) Includes 10,541 units held in a registered retirement plan belonging to Mr. Swartout.

(5) The units are held by 1201112 Alberta Ltd., a company controlled by Mr. Swartout.

Management's Discussion and Analysis

The Management's Discussion and Analysis, prepared as at March 7, 2006, focuses on key statistics from the Consolidated Financial Statements, and pertains to known risks and uncertainties relating to the oilfield services sector. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect Precision Drilling Trust (the "Trust" or "Precision") in the future. In order to obtain the best overall perspective, this discussion should be read in conjunction with the material contained in other parts of this annual report, including the "Cautionary Statement Regarding Forward-looking Information and Statements" on page 2, the audited Consolidated Financial Statements and the related notes. The effects on the Consolidated Financial Statements arising from differences in generally accepted accounting principles (GAAP) between Canada and the United States are described in Note 16 to the Consolidated Financial Statements. Additional information relating to the Trust, including the Annual Information Form, has been filed with SEDAR and is available at www.sedar.com.

With the conversion of the continuing assets and businesses of Precision Drilling Corporation to an income trust on November 7, 2005 pursuant to a plan of arrangement, the Trust, as the successor in interest to Precision Drilling Corporation, has been accounted for as a continuity of interest. Commencing with the year ended December 31, 2005 and the comparables for the quarterly and annual periods for the years ended December 31, 2004 and 2003, the consolidated financial statements of the Trust reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business formerly carried on by Precision Drilling Corporation.

Highlights

(Stated in thousands of Canadian dollars, except per unit/share amounts, which are presented on a diluted basis)

Years ended December 31,	2005	Increase (Decrease)	% Change	2004	Increase (Decrease)	% Change	2003
Revenue	**1,269,179**	**240,691**	**23**	1,028,488	113,318	12	915,170
Operating earnings[1]	**465,378**	**134,065**	**40**	331,313	78,864	31	252,449
Earnings from continuing operations	**220,848**	**32,717**	**17**	188,131	43,983	31	144,148
Discontinued operations	**1,409,715**	**1,350,442**	**2,278**	59,273	22,947	63	36,326
Net earnings	**1,630,563**	**1,383,159**	**559**	247,404	66,930	37	180,474
Earnings per unit/share from continuing operations	**1.76**	**0.15**	**9**	1.61	0.30	23	1.31
Net earnings per unit/share	**13.00**	**10.89**	**516**	2.11	0.48	29	1.63
Cash flow from continuing operations	**203,101**	**(84,720)**	**(29)**	287,821	86,900	43	200,921
Net capital spending from continuing operations	**140,077**	**26,180**	**23**	113,897	29,039	34	84,858
Distributions to unitholders	**70,510**	**70,510**	**n/a**	–	–	–	–
Distributions per unit	**0.56**	**0.56**	**n/a**	–	–	–	–

(1) Operating earnings is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, operating earnings is a useful supplemental measure as it provides an indication of the results generated by the Trust's principal business activities prior to consideration of how those activities are financed or how the results are taxed. Investors should be cautioned, however, that operating earnings should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Precision's performance. Precision's method of calculating operating earnings may differ from other entities and, accordingly, operating earnings may not be comparable to measures used by other entities.

Financial Position and Ratios

(Stated in thousands of Canadian dollars, except ratios)

Years ended December 31,	2005	2004	2003
Working capital	**$ 152,754**	$ 557,311	$ 248,994
Working capital ratio	**1.4**	2.5	1.6
Long-term debt[(1)]	**$ 96,838**	$ 718,850	$ 399,386
Total assets	**$ 1,718,882**	$ 3,852,049	$ 2,932,030
Long-term debt to long-term debt plus equity[(1)]	**0.08**	0.24	0.19
Long-term debt to cash flow from continuing operations[(1)]	**0.5**	2.5	2.0
Interest coverage[(2)]	**15.9**	7.2	7.4

[(1)] Excludes current portion of long-term debt which is included in working capital.
[(2)] Operating earnings divided by net interest expense.

The year 2005 was a period of significant change at Precision. In the second quarter, Precision entered into an agreement to sell its Energy Services and International Contract Drilling divisions to Weatherford International Ltd. ("Weatherford"). This transaction closed on August 31, 2005. As well, Precision sold its industrial plant maintenance business, carried on by CEDA, on September 13, 2005. In conjunction with funding from the above transactions, Precision repaid its outstanding debentures on October 17, 2005.

On November 7, 2005 Precision completed its conversion into an income trust pursuant to a plan of arrangement. As part of this conversion, Precision made a special cash payment of $844 million and transferred almost 26 million shares of Weatherford valued at $2.0 billion to shareholders. The resulting reduction to retained earnings was $2.9 billion.

Underlying all this change, the continuing Canadian business operations, our foundation, enjoyed a banner year. The continued world demand for crude oil and the related high commodity prices in combination with record high North American natural gas prices, manifested itself into a record 24,805 wells being drilled in the Western Canada Sedimentary Basin ("WCSB"). Precision was able to leverage off this demand through improved pricing, higher equipment utilization and effective cost control, resulting in a $134 million or 40 percent increase in operating earnings from 2004 to 2005. This strong performance followed a $79 million or 31 percent increase in operating earnings from 2003 to 2004.

Despite record setting business fundamentals in 2005, earnings from continuing operations before income taxes amounted to $293 million for an increase of just one percent over the prior year. Results for 2005 were reduced by one time items in the amount of $72 million for the premium paid on early bond redemption, $71 million for the loss on disposal of the short-term investment related to the 68-day holding period on the 26 million Weatherford shares and $18 million in reorganization costs associated with the conversion to an income trust. With the income trust conversion on November 7, 2005 subsequent earnings have benefited from a lower tax rate as the trust structure has the effect of shifting the income tax burden to unitholders.

The strategic decision to dispose of Energy Services and International Contract Drilling as well as CEDA has had a significant impact on Precision. First, it resulted in a gain on disposal of $1.3 billion within 2005 discontinued earnings. Second, Precision's underlying total asset base as at December 31, 2005 contracted by 55 percent from $3.9 billion in 2004 to $1.7 billion in 2005. Third, Precision's employee workforce was reduced from approximately 12,000 in more than 25 countries to 6,500 employees in one country, Canada.

Consistent with the new business footprint, Precision appointed an experienced management team at the executive and functional corporate level to effectively manage the business as it moves forward. The new management team was appointed from within the continuing business divisions, with transition leadership provided by the founding Chairman and Chief Executive Officer of Precision, Mr. Hank Swartout.

With the conversion to an income trust, Precision moved from a cash retention business model to a cash flow-through model with the adoption of a policy to make regular monthly cash distributions to unitholders. Precision is a mature organization that operates in a cyclical industry with sharp seasonal swings in revenue levels. The actual cash flow available for distribution to unitholders is a function of numerous factors including financial performance, debt covenants and obligations, working capital requirements as well as maintenance and expansion capital expenditure requirements for the purchase of property, plant and equipment. The capital resources available to Precision as at December 31, 2005 are strong, with positive working capital of $153 million and long-term debt of $97 million drawn on the $550 million syndicated loan facility.

The Canadian business platform has always been the foundation of Precision. With the contraction in scope to our business roots, our operational focus is set on Canada. Strategically, Precision expects to maintain and build upon our core group of people, augment the services we provide our customers, passionately pursue our Target Zero safety vision and continue to grow and be profitable. Precision has set its sights on the market place, with a view to participate in market growth throughout North America and with a longer term objective to consolidate higher cost, less efficient competitors.

Summary of Income Statement

(Stated in thousands of Canadian dollars)

Years ended December 31,	2005	2004	2003
Operating earnings (loss)			
Contract Drilling Services	**$ 404,385**	$ 282,315	$ 218,012
Completion and Production Services	**121,643**	77,074	48,706
Corporate and Other	**(60,650)**	(28,076)	(14,269)
	465,378	331,313	252,449
Interest, net	**29,270**	46,280	34,066
Premium on redemption of bonds	**71,885**	–	–
Loss on disposal of short-term investments	**70,992**	–	–
Gain on disposal of investments	**–**	(4,899)	(1,493)
Earnings from continuing operations before income taxes	**293,231**	289,932	219,876
Income taxes	**72,383**	101,801	75,728
Earnings from continuing operations	**220,848**	188,131	144,148
Discontinued operations	**1,409,715**	59,273	36,326
Net earnings	**$ 1,630,563**	$ 247,404	$ 180,474

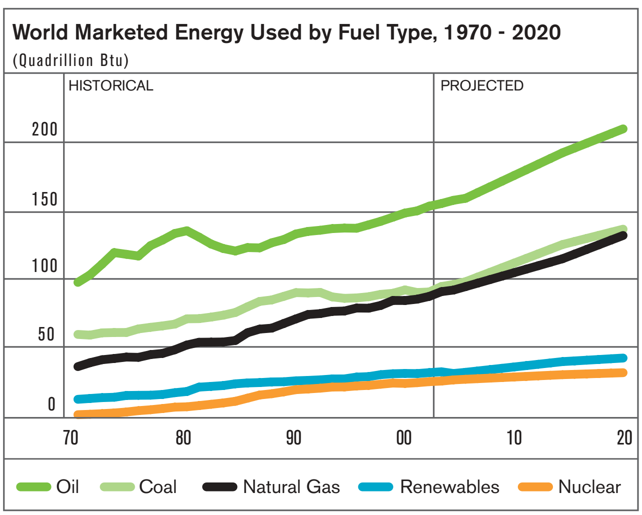
Economic Drivers of the Global Oilfield Services Business

In Canada, the economics of an oilfield service company align with global and regional fundamentals as described in the paragraphs that follow. Important regional drivers for the oilfield service business in Canada include the underlying hydrocarbon make-up of the WCSB and the existence of an established, competitive and efficient oilfield service infrastructure. Increasingly, natural gas production is driving economics within the WCSB as approximately 75 percent of new well completions in 2005 were targeted towards natural gas. In general terms, drilling activity in the WCSB is split between the provinces with 75 percent in Alberta, 15 percent in British Columbia and the remaining 10 percent in Saskatchewan. At present, the activity levels in northern Canada and areas east are relatively low. Areas in Canada's north hold significant promise for the future as pipeline and local community relations are established. The Canadian oilfield service industry dates back to the 1940s and has given Canada the means to develop its reserves to meet domestic consumption and to provide large export capacity, primarily to the United States.

The hydrocarbon structure of the WCSB is world class in its diversity. Conventional sources of oil and natural gas reservoirs exist at a variety of depths which are comparatively shallow by global standards. These conventional sources are accompanied by more costly and challenging reservoirs associated with oil sands, heavy oil, coal bed methane or natural gas in coal and tight natural gas in deeper formations. These sources of energy border with the largest consumer of hydrocarbons in the world, the United States.

Crude oil and natural gas are the primary sources of energy in the world. As history has proven, it takes decades if not centuries to displace energy sources. As a result, hydrocarbon production will remain critical to the world's energy needs for the foreseeable future, with demand forecasted by many to continue to increase, as illustrated below.

The provision of these commodities to the consuming public involves a number of players, each of which take on different risks in the process of exploring for, producing, refining and distributing hydrocarbons and associated refined by-products. Exploration and production companies assume the risk of finding hydrocarbons in pools of sufficient size to economically develop and produce reserves. The economics of exploration and production is dictated by the current and expected future margin between the cost to find and develop hydrocarbons and the price at which those products can be sold. The wider the margin, the more incentive there is to undertake the activities involved in the process of exploration and development.

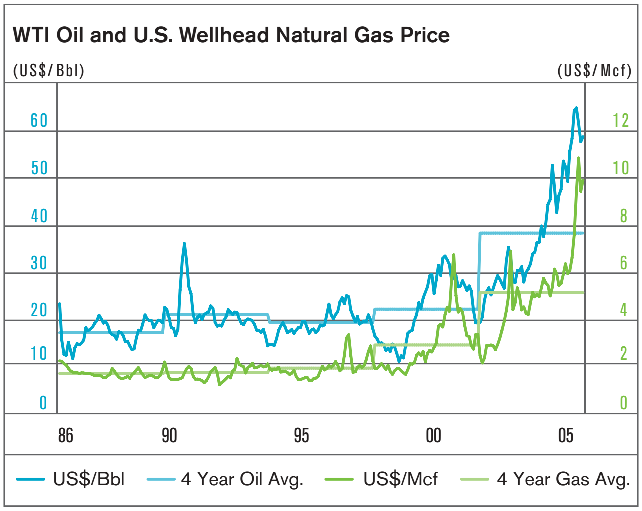


(Source: History: Energy Information Administration (EIA), International Energy Annual 2002, DOE/EIA-0219(2002)(Washington, DC, March 2004) Website: www.eia.doe.gob
Projections: EIA System for the Analysis of Global Energy Markets (2005))

These activities include acquiring access to prospective lands, shooting seismic to detect the presence of hydrocarbon-bearing structures, drilling wells and measuring the characteristics of subsurface geological formations. Exploration and production companies hire oilfield service companies to perform the majority of these services. The revenue for an oilfield service company is part of an exploration and production company's finding and development costs.

Providing these oilfield services incorporates three main elements: people, technology and equipment. Attracting, training and retaining qualified employees is the single biggest challenge for a service company. Exploration and production activities are taking place in an ever increasing variety of surface and subsurface conditions. Developing technology and building equipment that can withstand increasing physical challenges and operate more efficiently is required to maintain and improve the economics of crude oil and natural gas production. The primary economic risks assumed by oilfield service companies are the volatility of activity levels that translate into utilization rates for its investment in people, technology and equipment, and cost control to maximize the margins earned.

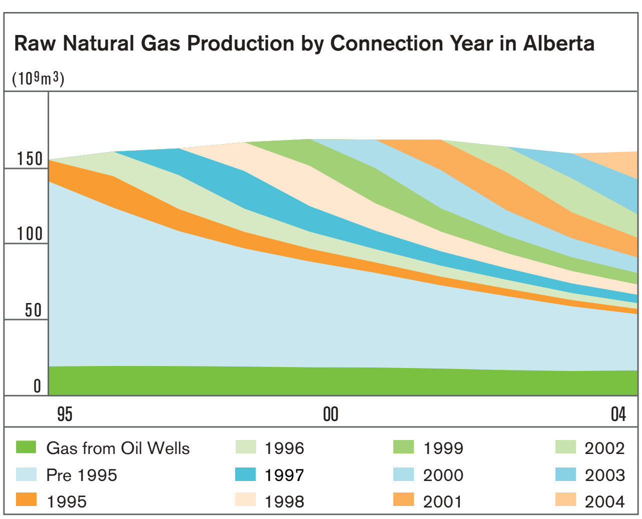
The economics of a service company are thus largely driven by the current and expected price of crude oil and natural gas, which are determined by the supply and demand for these commodities. Since crude oil can be transported relatively easily, it is priced in a worldwide market, which is influenced by a wide array of economic and political factors. Natural gas is priced in more local markets due to the requirement to transport this gaseous product in pressurized pipelines, although this is changing slowly with the emergence of liquefied natural gas ("LNG"). North America will need to compete on a global basis to secure access to LNG supplies as demand in other parts of the world continues to rise.



(Source: Bank of America, Bloomberg, Reuters, EIA)

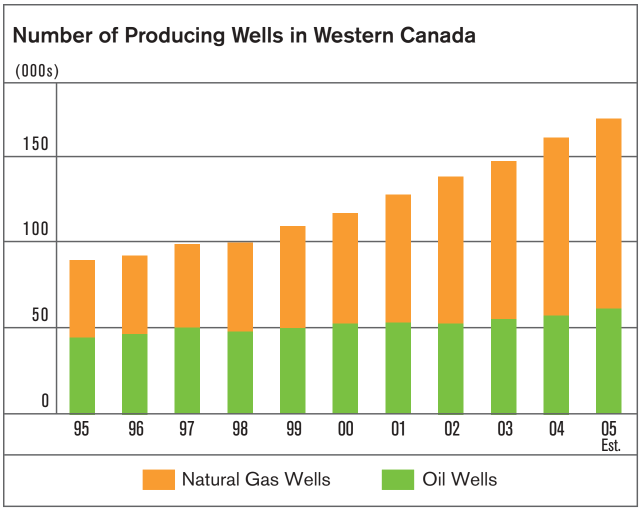
Although, as illustrated, crude oil and natural gas prices have historically been quite volatile, the upward trend since 2002 has endured and resulted in very high commodity price levels to exit 2005. Certainly, weather was a factor in the Gulf of Mexico this past hurricane season, as Katrina and others caused tremendous damage to production infrastructure and caused a spike in commodity pricing during September 2005. These events highlight the narrow tolerance and lack of surplus capacity to compensate for oil or natural gas production that may suddenly go off-line. The supply and demand balance is narrow and significant industry reinvestment is required to add and replace old infrastructure. Many industry observers believe that a new pricing floor is being set due to the pace of production decline in combination with demand growth projections. Clearly, hydrocarbons are a non-renewable resource that is more costly and difficult to discover and develop. West Texas Intermediate (WTI) oil prices averaged US$56 per barrel during 2005, an increase of 37 percent over the 2004 average of US$41 per barrel. Oil prices continue to be affected by political instability in some OPEC member nations (Venezuela, Iraq, Nigeria and Iran) and from a strengthening world economy with energy demand growth particularly strong in China, India and Southeast Asia.

Consistent with commentary over the past three years, North American natural gas prices are also being supported by strong fundamentals. North American Henry Hub natural gas prices surged 45 percent in 2005 averaging US$8.96 per mmbtu, an increase of US$2.78 per mmbtu over 2004. Demand for natural gas is increasing with economic growth while supply from relatively mature producing basins is continuing to gradually decline. The record North American drilling levels over the past three years have served to slow the decline in the production rate and this situation is not expected to change in the near future. High oil prices also serve to support natural gas prices as the economic benefits of switching between the two fuels is minimal. The graph at left demonstrates decline rates in natural gas production in Alberta.



(Source: Alberta Energy and Utilities Board)

The graph at the top of page 52 shows that the number of producing natural gas wells has dramatically increased over the past decade. This, coupled with the previous graph, which indicates natural gas production remains flat with high decline rates, suggests that more wells are required to be drilled in order to meet North American supply needs. This situation could be further magnified if the demand for natural gas continues to strengthen. The demand for crude oil and natural gas is forecast to increase over the next two decades.

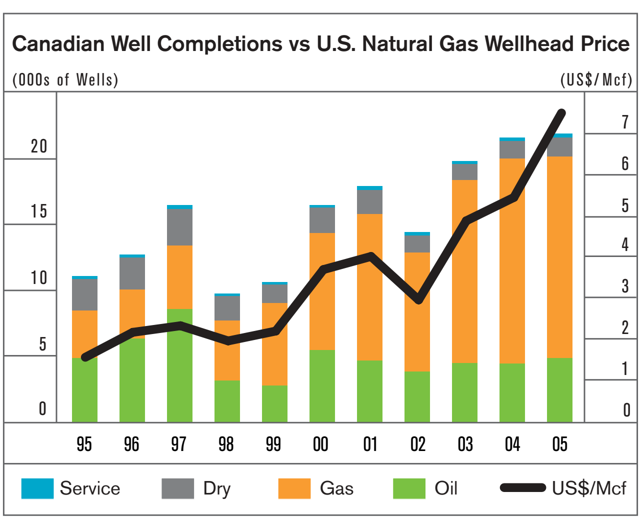


(Source: Canadian Assocation of Petroleum Producers)

Over the last decade, customers in North America have shifted focus from crude oil and are pursuing alternatives such as natural gas, coal and nuclear power, looking for cleaner sources of energy. The parameters for natural gas, however, remain the strongest as it is a proven, environmentally efficient energy source with infrastructure in place. Other sources of natural gas such as coal bed methane will be required in western Canada to replace the production decline in sweet and sour natural gas wells in the WCSB.

In spite of record drilling activity, production levels remain relatively flat. The trend in recent years is for customers to drill shallow gas wells within existing reservoirs to exploit reserves. This is supported by the fact that over 75 percent of the natural gas wells drilled in 2005 were shallow wells. The shallow wells are quick, easy finds with relatively rapid declines in production rate.

Reserve to production ratios, which are an indication of how quickly reserves are depleting, are beginning to flatten after a period of decline starting in the 1990s. The end result of these trends is that drilling activity must stay the same or increase to allow current production levels to be maintained. This situation is leading producers to drill deeper resource plays to extend their natural gas reserve life index. Increasingly, industry is looking for the next big, prolific natural gas field. This situation bodes well for the oilfield service industry and Precision's contract drilling services segment, in particular, with respect to its overweighting in deep drilling rig capacity.



(Source: EIA, CAODC)

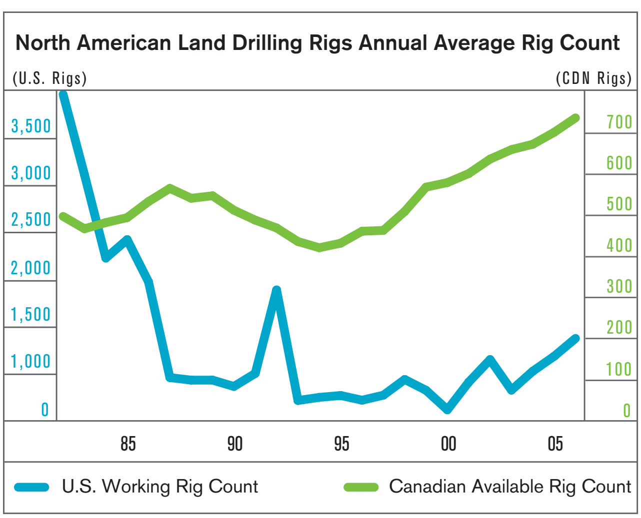
The graph at left depicts the increase in natural gas completions over the past eleven years and its direct correlation to natural gas pricing. To begin 2006, we are experiencing the effects of having record amounts of natural gas in storage as we close out the winter heating season. Natural gas prices are falling because of the warmer weather that is being experienced throughout North America. It is important to consider that natural gas prices are still more than triple the US$2.00 per mmbtu average seen in the 1990s. We also have to be cognizant of the fact that there is a lead time to drill and tie-in new discoveries. Even with commodity price declines, it is questionable whether customers in the short term will slow down exploration and development given demand growth. Conversely, the lower natural gas prices will most likely lead to additional consumption.

Precision is the industry leader in Canada for providing a wide array of oilfield services. The Canadian industry is in a good position as the United States, the largest consumer of energy, is looking to Canadian production to help meet its energy needs. The worldwide demand for crude oil looks to be ever increasing. China, the world's second largest oil consumer, imports more than 40 percent of its needs. Additionally, India, the second most populated country and third largest consumer, currently imports 70 percent of its needs.

In light of this, the supply of drilling rigs in Canada has steadily increased over the past 12 years to 770, an all-time high. Customer demand as measured by operating day utilization peaked at 71 percent in 1997 and has ranged between 38 percent and 60 percent since that time. Rig industry utilization was 60 percent for 2005. The recent higher utilization levels have caused the drilling contractors to add capacity. During the year, 50 drilling rigs were added and an additional 100 new rig builds are anticipated in the coming year, many of which are without long-term contracts. The bulk of these new builds are either telescopic doubles or coil tubing units. In the short-term, capacity is geared towards peak winter demand. In the long-term, it provides the capacity to drill more wells through better utilization during the remainder of a year. If commodity prices weaken for a prolonged period, the industry may have a large supply and demand imbalance. Clearly, the industry believes that the pace of drilling to sustain natural gas production for domestic Canadian use and export to the United States will keep equipment utilization strong.

There were 50 new drilling rigs added to the Canadian industry fleet during 2005, a seven percent increase to the total. Of these additional rigs, 68 percent had a depth rating of less than 1,500 metres with new coiled tubing rigs leading the way with 21 and singles with 13. Customer demand to drill conventional natural gas and oil wells, in combination with improving commercialization of natural gas in coal, oil sands and tight natural gas formations are driving demand for rigs to record levels.

Just as natural gas is a North American commodity, drilling rigs are, although to a lesser degree, available to work in the Canadian and lower 48 United States markets. It is interesting to note that while the Canadian drilling rig count is at an all time high, the count in the United States is one third of the capacity that was in existence in the early 1980s, as illustrated in the graph at left.



(Source: CAODC, Baker Hughes)

Precision's Development in the Oilfield Services Business

Precision began in western Canada as a land drilling contractor and our development has matched that of the WCSB. Initially founded in 1985 as Cypress Drilling Ltd., the business quickly grew from four drilling rigs to 19 with the reverse takeover in 1987 of Precision Drilling Ltd., a company formed in 1952. Over the following decade, a series of nine acquisitions expanded the Canadian drilling rig fleet to 200 as of May 1997 and established a 40 percent market share of industry rigs. Diversification into service rigs and snubbing operations came with the 1996 acquisition of EnServ Corporation. In the second half of the year 2000, Precision became fully vested in the Canadian service rig business as the CenAlta Energy Services Inc. acquisition created a combined fleet of 257 service rigs and a leading industry market share of 28 percent. The additional acquisition in 2000 of coil tubing drilling rigs and other shallow drilling rigs rounded out key milestones in our Canadian asset base growth.

Precision's success is dependant on providing a complement of oilfield services that are cost effective to exploration and production companies, enabling them to find and develop hydrocarbon pools of sufficient size to economically produce. Precision prides itself on providing quality equipment operated by teams of highly experienced and well trained crews. In order to facilitate customer needs and to optimally manage our business, Precision is divided into two operating segments:

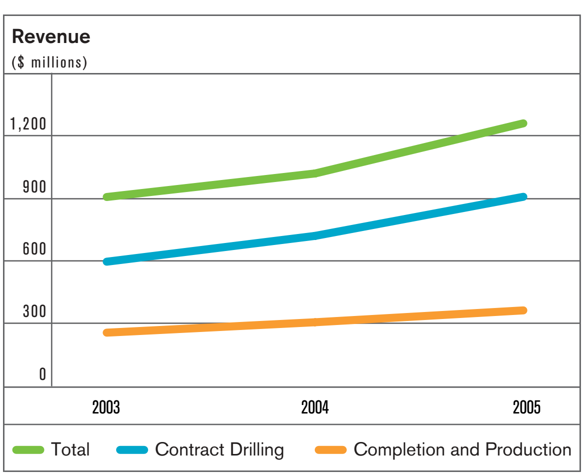
Contract Drilling Services is comprised of:

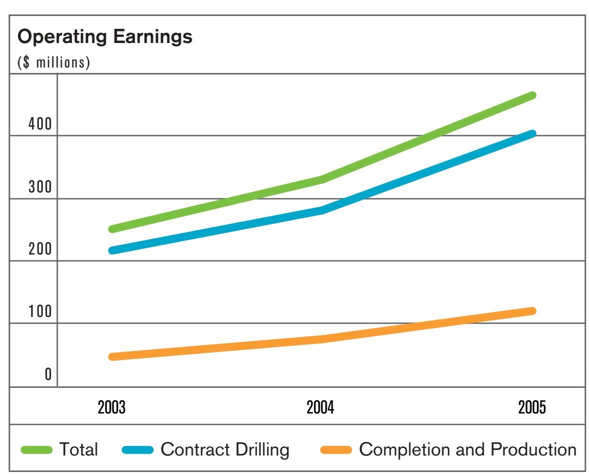
- Precision Drilling – 230 drilling rigs – 30 percent of industry
- LRG Catering ("LRG") – 92 drilling camps – 20 percent of industry
- Rostel Industries ("Rostel") – manufactures and refurbishes drilling rig components
- Columbia Oilfield Supply ("Columbia") – centralized procurement, inventory and distribution of consumable supplies

Completion and Production Services is comprised of:

- Precision Well Servicing ("PWS") – 237 service rigs – 24 percent of industry
- Live Well Servicing Ltd. ("Live Well") – 26 snubbing units – 30 percent of industry
- Precision Rentals – 3,700 storage tanks, 8,000 joints of specialty drill pipe, 4,000 handling tools, 300 wellsite accommodation units – 15 percent of the industry

The following graphs illustrate how the Contract Drilling Services segment and the Completion and Production Services segment have historically contributed to Precision's profitability and investment.





Precision is tightly integrated in terms of operational management, safety, engineering, information technology, accounting and senior management. Each division has experienced asset growth and performs a lead market role within Canada. Communication is a skill that has been refined and ingrained in the operating culture. Precision works closely with customers to ensure their needs are being meet. The ability to successfully combine acquisitions through vertical integration within and between related ancillary business units has been developed over the past 20 years.

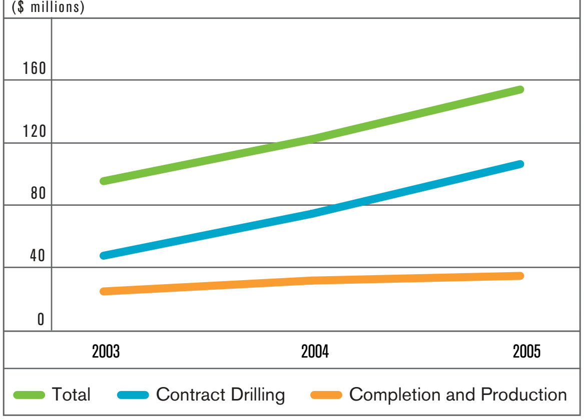
While each division is at its own stage in the business life cycle, Precision Well Servicing in particular has matured the most over the past four years as it follows the proven Precision Drilling model. The remaining divisions are in the process of following suit. Accordingly, each division has developed critical equipment mass and employee depth. Precision has implemented and is further developing integrity-based systems that enable the business to be versatile in order to meet fundamental industry challenges while delivering better profit and safety performance.

While safety and quality of service continue as our primary focus, close behind are our basic and simple methods of controlling costs in conjunction with revenue generation. Canada is a market that has allowed the segments to mature into an efficient and productive business model, but not without challenge. Due to the seasonal and economic cycles associated with our industry, our fixed support infrastructure is required to be lean with elasticity to expand direct variable costs to meet high equipment demand periods and conversely, to shrink with drops in utilization. Fixed cost support infrastructure relates to salaried office personnel and systems while variable costs typically relate to employees that work directly with equipment on the job, in the field. The variable, hourly paid field employees work and are paid when associated equipment is generating revenue.

The supply of experienced people yields profit leverage for oilfield service companies, not just the “iron”. Employee retention and seasonal cycles remain manpower challenges for the industry. The already tight supply for people is being further challenged by the number of rigs being added to the industry along with the expansion of newly formed oilfield service companies. Despite the above, in the fourth quarter of 2005, Precision Drilling had only 15 of 230 rigs operating without a full crew complement. Precision has been cognizant of the need to hire, train and retain qualified field staff. In order to alleviate crew shortages there are centralized personnel groups to more effectively recruit and retain employees. In addition, we have pre-employment rig orientation training where in 2005 we put through 1,500 candidates, an increase of 43 percent over 2004.

Precision has a balanced drilling rig offering, with particular strength in deep drilling. As customers turn to deeper wells to discover new reserves, Precision’s 40 percent market share in rigs with a depth capacity greater than 3,600 meters is noteworthy. Drilling opportunities for tight natural gas in deeper reservoirs is a market where Precision has particular advantage, a market many expect to emerge in Canada.

Capital Expenditures
($ millions)



The following provides a summary of Precision's drilling and service rig fleets:

Precision Drilling

		Precision Fleet			Industry Fleet[2]		
Type of Drilling Rig	Maximum Depth Rating	Number of Rigs	% of Total	Market Share %[3]	Number of Rigs	% of Total	Change[4]
Single	1,200m	17	7	14	124	16	13
Super Single®[1]	3,000m	21	9	88	24	3	0
Double	3,000m	94	41	27	344	45	14
Light triple	3,600m	44	19	39	114	15	(4)
Heavy Triple	6,700m	43	19	40	107	14	6
Coiled tubing	1,500m	11	5	19	57	7	21
		230	100	30	770	100	50

Notes: (1) Super Single® excludes single rigs that do not have automated pipe handling systems, or do not have a self contained top drive, or cannot run range-3 drill pipe/casing.

(2) Source: Daily Oil Bulletin's Rig Locator Report as of January 4, 2006. Precision has allocated the industry rig fleet by rig type.

(3) Market share means Precision's rigs as a percentage of the industry's rigs.

(4) Change in number of industry rigs as compared to prior year.

Type of Drilling Rig	Maximum Depth Rating	2005	2004	2003	2002	2001
Single	1,200m	**17**	16	18	17	16
Super Single®	3,000m	**21**	21	15	16	17
Double	3,000m	**94**	95	96	96	99
Light triple	3,600m	**44**	45	47	47	48
Heavy Triple	6,700m	**43**	41	39	39	38
Coiled tubing	1,500m	**11**	11	10	11	11
Total fleet		**230**	229	225	226	229

Precision Well Servicing

Type of Service Rig	2005	2004	2003	2002	2001
Freestanding mobile single	**88**	86	75	50	23
Mobile single	**17**	19	30	56	95
Double	**64**	65	57	58	60
Freestanding mobile double	**8**	9	6	6	5
Mobile double	**44**	42	46	45	48
Heavy double	**1**	2	9	9	9
Freestanding slant	**15**	16	16	16	16
Swab	**–**	–	–	–	1
Total fleet	**237**	239	239	240	257

Results of Operations

Contract Drilling Services Segment

(Stated in thousands of Canadian dollars, except where indicated)

Years ended December 31,	2005	% of Revenue	2004	% of Revenue	2003	% of Revenue
Revenue	**$ 916,221**		$ 727,710		$ 663,619	
Expenses:						
Operating	**448,930**	**49.0**	382,886	52.6	379,842	57.2
General and administrative	**23,911**	**2.6**	19,190	2.6	15,676	2.4
Depreciation	**39,233**	**4.3**	42,245	5.8	47,895	7.2
Foreign exchange	**(238)**	**–**	1,074	0.2	2,194	0.3
Operating earnings	**$ 404,385**	**44.1**	$ 282,315	38.8	$ 218,012	32.9

	2005	% Increase (Decrease)	2004	% Increase (Decrease)	2003
Number of drilling rigs (end of year)	**230**	**0.4**	229	1.8	225
Drilling operating days	**46,937**	**12.8**	41,625	(1.5)	42,275
Drilling revenue per operating day ($/day)	**18,034**	**9.3**	16,494	11.5	14,792
Number of wells drilled	**7,766**	**3.2**	7,525	(11.0)	8,451
Average days per well	**6.0**	**9.1**	5.5	10.0	5.0
Number of meters drilled (000s)	**8,901**	**11.0**	8,021	(6.8)	8,604
Average meters per well	**1,146**	**7.5**	1,066	4.7	1,018

2005 Compared to 2004

The Contract Drilling Services segment generated record financial results in 2005 on the strength of unprecedented drilling activity in western Canada and improved pricing for related services. Revenue increased by $189 million or 26 percent over 2004 to $916 million while operating earnings increased by $122 million or 43 percent to $404 million. As a percentage of revenue, operating earnings increased to 44 percent in 2005 as compared to 39 percent in 2004. The margin increase was primarily attributable to pricing improvements.

Operating expenses were lower as a percentage of revenue despite crew wage rate increases. These costs declined from 53 percent of revenue in 2004 to 49 percent in 2005, and on a per operating day basis, they have remained flat. Higher equipment utilization has lowered the daily cost associated with fixed operating cost components. Variable costs are controlled through extensive analysis and cost awareness. This combined with the ability to mitigate cost escalations through volume purchasing and relationships with suppliers further enhanced profitability.

Oil and natural gas prices were the story of 2005. Economic conditions for energy continued to show significant improvement with crude oil and natural gas establishing record pricing. These commodity prices had Canada's oil and gas companies drilling a record 24,805 wells on a rig release basis, an increase of nine percent over 2004. In fact, new record well counts have been set for three successive years. As customers push to bring on-stream as much production as possible during these times, oilfield service firms benefit from this surge in spending. Precision, the largest oilfield service provider in Canada, was a direct benefactor.

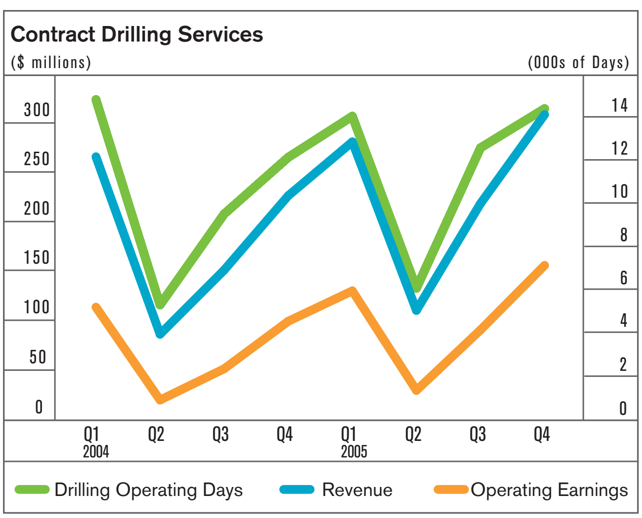
The Canadian drilling industry is subject to seasonality, with peak activity levels during winter months from November through to March. Typically during the latter half of March, weather conditions turn warmer to the point that thawing occurs and causes ground conditions to become too soft and unstable. These unstable ground conditions increase operating costs for customers and cause seasonal road bans to be temporarily imposed. This event can extend into June in certain areas, and is commonly referred to as "spring break-up". In some areas of the extreme north, where there is only winter access over ice bridges, this break-up period can span April through November. Timing for these northern rigs becomes critical for customers that need to migrate the equipment south to areas where summer drilling can occur.

This rise in activity has been strengthening on a comparative quarterly basis year over year for the past three years. This demand has enabled the Contract Drilling Services segment to steadily increase revenue and underlying operating margins even though the overall fleet of equipment has increased just slightly.

Drilling contractors in western Canada have increased the available rig count to a level that will require the industry to drill more than 20,000 wells, at an average of seven days per well, to keep annual operating day utilization above 50 percent. For 2006, indications are that drilling companies may add another 100 rigs, which will raise the well count threshold even higher.

Capital expenditures for the Contract Drilling Services segment in 2005 were $107 million and included $54 million to grow and expand the underlying asset base and $53 million to sustain and upgrade existing equipment. The majority of the expansion capital expenditure was associated with new drilling rig construction.

The Precision Drilling division has once again set new financial benchmarks for 2005. Revenue increased by $160 million or 23 percent over 2004 to $846 million. Just over half of this revenue growth was associated with increased activity and the remainder with increased rates. The division entered the year with great anticipation as rig demand exceeded rig availability by a wide margin. Then came the March melt down as warm weather in western Canada caused a somewhat premature end to the winter drilling season. Soon after, the June rains rolled in and thwarted thoughts of an exceptional second quarter. Disappointing activity results for the first half of the year were strictly weather related. These activity levels caused customer drilling programs to fall behind and created a backlog. As ground conditions dried in July, the impact of this pent-up demand led to an outstanding third and fourth quarter.



Rig demand continued to build momentum through to the end of the year. Overall, the industry benefited from the pricing leverage established from strong third quarter activity. Accordingly, increased pricing was established in the fourth quarter for the winter drilling season. Rig shortages also created a large spot market of operators who did not have equipment booked for the winter, enabling the division to charge premium prices.

Operating earnings in the Precision Drilling division increased by 46 percent due in part to the 13 percent increase in operating activity combined with the nine percent increase in revenue per operating day. Depreciation expense for the year was $11 million lower due to the effects of a change in the estimated life of rig assets to 5,000 utilization days from 4,150 in 2005. Precision Drilling was able to maintain its cost per operating day at its 2004 rate. Crew labour costs in 2005 were 52 percent of operating costs up two percent from 2004. The 2005 cost of drilling, maintenance and overhead on a per day basis was consistent with 2004. An important component of the success of the division is the degree to which the cost structures have been developed to be as variable as possible with activity levels. This flexibility has allowed the division to respond quickly to sudden changes in equipment utilization and produce superior returns in periods of high activity similar to 2005.

The Precision Drilling division is slightly larger than it was in 2004. In the fourth quarter, two Super Single® Light rigs were added to the fleet and one rig was sold. The net addition is the start of Precision's strategy to organically expand through the addition of versatile rigs backed by long-term customer commitments. Precision Drilling commenced 19 new rig builds in 2005 and expects that all but two will be field ready in 2006. The division's rig fleet is expected to average 237 for 2006, exiting the year at 247 rigs.

LRG Catering division, has been sized to support Precision's drilling rig fleet and also had an outstanding year. LRG camp days increased over the prior year by 26 percent in 2005 leading to a revenue increase of 40 percent. The growing number of field personnel in the industry is putting overwhelming pressure on other accommodation sources, such as hotels. Customers compensated by utilizing camps in areas where crews would normally have returned to town for lodging. LRG operating expenses increased due to higher labour and grocery costs and these increases were more than offset by an increase in revenue rates. In terms of capital expenditures, LRG grew its fleet by adding five new six-unit camps.

Rostel Industries and Columbia Oilfield Supply divisions continue to provide valuable support for this segment and are best measured by the efficiencies and contributions made to Precision through cost savings. Rostel's core business is the manufacture and refurbishment of custom drilling and service rig components. Columbia is a general supply store that procures and distributes large volumes of consumable oilfield supplies for the Precision divisions. Columbia is an essential extension of the purchasing process that ensures all rigs are provided with timely and reliable running supplies to keep them operational. More importantly, Columbia allows operations in Precision to standardize product use and quality.

2004 Compared to 2003

The Contract Drilling Services segment generated increased financial results in 2004 due to an improvement in oil and natural gas commodity prices, which led to greater customer demand for all of the segment's oilfield services and the leverage to increase revenue rates. Operational execution and diligence allowed for the efficient delivery of services and control over the rate of operating and administrative cost escalations.

The segment reported revenues of $728 million, $64 million more than 2003, an increase of 10 percent. These results were generated with an equipment fleet size that was relatively unchanged from the prior year. Revenue growth in 2004 was primarily attributable to revenue rate increases. Operating earnings increased by $64 million or 29 percent to $282 million. As a percentage of revenue, operating earnings increased to 39 percent in 2004 as compared to 33 percent in 2003. The margin increase was attributable to higher pricing even though operating day utilization for the drilling rig fleet was two percent lower in 2003. The second half of the year benefited from rising commodity prices enabling the segment to increase rates commencing in the fourth quarter. However, poor weather conditions in the third quarter hampered industry drilling activity.

Operating expenses were lower as a percentage of revenue, improving to 53 percent in 2004 from 57 percent in 2003. The improvement is attributable to higher revenue rates partially offset by higher labour costs.

Capital expenditures amounted to $75 million in 2004. This was comprised of $37 million in growth initiatives for the construction of new rigs and camps and was matched by $38 million in expenditures to sustain and upgrade existing equipment.

For the Precision Drilling division revenue increased by $55 million or nine percent over 2003 to $687 million. The majority of 2004 revenue was attributable to rate increases that flowed through to operating earnings as overall activity was very similar to 2003. In 2004 winter drilling revenue rates held firm through the second quarter. While adverse third quarter weather prevented some wells from being drilled, it did add to the backlog of work, strengthening spot market demand and enabling the division to put through an additional revenue rate increase to start the fourth quarter. Although industry activity in Canada was approximately five percent higher than 2003, the industry supply of additional drilling rigs hindered opportunities to gain higher utilization. Precision Drilling's rig fleet increased by four rigs in 2004, ending the year at 229 rigs. Operating costs were reasonably well contained with a six percent fourth quarter labour rate increase and static maintenance costs.

LRG Catering division experienced a seven percent increase in camp days and a 16 percent increase in revenue. Much of the rate increase was due to the impact of three new base camps commissioned in the fourth quarter.

Completion and Production Services Segment

(Stated in thousands of Canadian dollars, except where indicated)

Years ended December 31,	2005	% of Revenue	2004	% of Revenue	2003	% of Revenue
Revenue	**$ 369,667**		$ 313,386		$ 263,218	
Expenses:						
Operating	**209,657**	**56.7**	196,113	62.6	176,295	67.0
General and administrative	**11,021**	**3.0**	12,708	4.0	12,447	4.7
Depreciation	**27,402**	**7.4**	27,508	8.8	25,720	9.8
Foreign exchange	**(56)**	**–**	(17)	–	50	–
Operating earnings	**$ 121,643**	**32.9**	$ 77,074	24.6	$ 48,706	18.5

	2005	% Increase (Decrease)	2004	% Increase (Decrease)	2003	% Increase (Decrease)
Number of service rigs (end of year)	**237**	**(0.8)**	239	–	239	–
Service rig operating hours	**477,232**	**1.1**	472,008	7.4	439,519	12.1
Revenue per operating hour ($/hr.)	**600**	**17.0**	513	11.0	462	3.6

2005 Compared to 2004

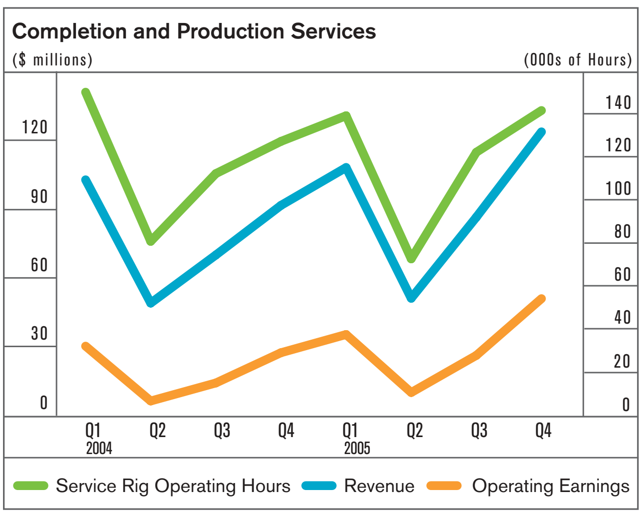
The Completion and Production Services segment, also generated record financial results in 2005 on the strength of industry activity in western Canada and improved pricing for services. Revenue increased by $56 million or 18 percent over 2004 to $370 million while operating earnings increased by $45 million or 58 percent to $122 million. As a percentage of revenue, operating earnings increased to 33 percent in 2005 as compared to 25 percent in 2004. The margin increase is attributable to the enhanced operating performance of the service rig fleet as the division was able to increase rates throughout the year. Equipment demand has provided the ability to establish pricing levels that are based on possession rather than just usage.

Operating expenses declined from 63 percent of revenue in 2004 to 57 percent in 2005 and, on a per operating hour basis, increased marginally due to higher labour costs. This segment continues to strengthen its systems and cost controls as it follows the proven model built around the drilling business. Analytical tools are extensively used as we continue to benefit from Precision's enterprise-wide information system. Centralization of personnel, accounting, purchasing, and equipment management has provided economies of scale and more effective deployment of the segment's resources.

The segment is beginning to benefit from unprecedented industry activity in 2005 which set records for the number of wells completed and the number of producing wells in western Canada. The 24,805 wells rig released in

2005 brings the total in the past three years to 69,365. This has put extreme pressure on equipment demands as customers were eager to increase their production levels to benefit from high commodity prices.

The Completion and Production segment is also affected by the cyclical nature of the seasons. The first and fourth quarters are the most active as colder weather conditions allow for unrestricted movement of heavy equipment on county and provincial roads. The first quarter traditionally produces the highest utilization as customers are able to work northern areas only accessible at this time. However, the fourth quarter of 2005 produced exceptional results as customers caught up on the backlog of work deferred from the first half of the year. This resulted from an early "spring break-up" and an exceptionally wet second quarter.



Service rig contractors in western Canada have kept the industry rig fleet count relatively constant over the past five years at a level of approximately 1,000 service rigs. Precision and the industry have adjusted to the shift in focus from oil to natural gas by customers. Recent growth in the WCSB has been associated with natural gas production which is beginning to increase demand for completion and production services providing additional opportunities for Precision's diverse service rig fleet.

Surging oilfield activity in the drilling sector has created shortages in both equipment and manpower. The well documented manpower shortage continues to be a concern. Strong customer relationships, reliable equipment and a safe working environment are important aspects in employee recruitment and retention.

The reinvestment in equipment over the last several years has helped to position the Completion and Production segment as an industry leader. Capital spending in 2005 amounted to $35 million, an increase of nine percent over 2004. This included expansion capital of $8 million for a freestanding snubbing unit, additional pump trucks, wellsite accommodations and storage tanks. Maintenance capital to sustain the existing asset base included replacement trucks for transporters, snubbing units and pump trucks as well as rental drill pipe, snubbing equipment and a facility upgrade in Grande Prairie, Alberta.

The Precision Well Servicing division has set a new financial benchmark in 2005. Revenue increased $44 million or 18 percent over 2004 to $286 million. A slight increase in activity combined with higher rates accounted for the increase. PWS achieved 55 percent utilization, a nominal improvement over the prior year. Activity levels were dampened in the first half of 2005 due to poor weather conditions, leading to a rebound in the latter half due to the backlog of work. By the end of the year activity levels had only exceeded the prior year by 5,224 operating hours or one percent. The opportunity to make up additional hours in the last half of the year was just a factor of calendar time as there was plenty of work available. Rig rates therefore were the major contributor to the increased revenue. Traditional winter pricing takes affect on October 1 and coupled with record fourth quarter activity in 2005, the division generated record quarterly results to exit the year. The influx of junior oil and gas companies created a spot market that allowed for stronger pricing.

Operating earnings for this division improved by $38 million resulting in a 79 percent improvement over the prior year, due mainly to price increases. In addition, operating costs were marginally higher year over year on a per operating hour basis due to higher labour costs. Cost efficiencies were achieved by consolidating operating centres in the latter part of the prior year.

Capital expenditures in 2005 continued to emphasize the upgrading and standardization of equipment. This includes upgrades to rig carriers through new electronic engines and design changes to adapt axle configurations for lighter road weights. This design change allows for greater utilization during periods when restrictive road bans are in effect. The strategy is to optimize service availability to generate revenue without having to increase the size of the rig fleet. Today, approximately 60 percent of the service rig fleet is able to move year round.

Live Well's activity decreased slightly in 2005. The demand for snubbing, while finishing strong, paused early in the year. Despite this, revenue increased by $4 million or 12 percent over 2004 to $32 million. The improvement was attributable to higher hourly operating and standby rates established in the last half of the year. Strong activity in the fourth quarter allowed Live Well to exit 2005 with strong utilization. Operating earnings increased by seven percent over the prior year due to price increases.

Lower utilization was due, in part, to the industry's challenge to modify and improve recommended industry practices. Snubbing services are associated with producing natural gas wells and involves safety risks that can be greater than other oilfield services. Live Well is working with its industry partners and customers to bring about constructive change.

In terms of capital expenditures, Live Well upgraded its fleet of hydraulic rig assist snubbing units through scheduled truck chassis replacement and introduced its first freestanding snubbing unit. This proprietary, automated design includes a pipe handling system that sets new standards for safety and efficiency.

Precision Rentals reported a revenue increase of $8 million or 19 percent over 2004 to $51 million. The increase is attributable to higher drilling activity which led to higher demand for rental equipment. This demand enabled the division to benefit from higher utilization and improved pricing for each of its three product categories: surface equipment; tubulars and well control equipment; and wellsite accommodations. This accretion was established in the fourth quarter, consistent with Precision's other divisions. Operating earnings increased by 37 percent over the prior year.

The operation has been restructured and now consists of multiple operating centres strategically located in the WCSB. This new structure allows Precision Rentals to logistically manage all product categories from each location and is supported by a new enterprise-wide information system. This initiative has brought about improvements in service delivery, equipment standardization and a more structured pricing regime.

In terms of capital expenditures, Precision Rentals continues to reinvest in each of its product categories to keep its equipment in premium condition and achieve the most efficient design available in the industry. The division expanded its wellsite accommodation fleet in 2005 by eight percent with the purchase of 24 units.

2004 Compared to 2003

The Completion and Production segment generated revenues of $313 million, which is $50 million or 19 percent higher than revenues of $263 million in 2003. Operating earnings increased by $28 million or 58 percent to $77 million. The increase in revenue is attributable to a balanced mix of rate increases and higher equipment utilization. The Precision Well Servicing division contributed 78 percent of the revenue increase. Operating expenses were lower as a percentage of revenue, showing an improvement from 67 percent of revenue in 2003 to 63 percent in 2004. Continued reinvestment as well as the streamlining of operations has enabled the Completion and Production segment to provide premium equipment and services to customers. Capital spending in 2004 amounted to $32 million and included expansion capital of $7 million for additional pump trucks, storage tanks and initial construction of a freestanding snubbing unit. Maintenance capital in the amount of $25 million was incurred to sustain the existing asset base through upgrades that included transporters, pump trucks, wellsite units, surface tanks and facilities.

For the Precision Well Servicing division, revenue increased $39 million or 19 percent over 2003 to $242 million. Service rig activity increased by 32,489 hours to 472,008 in 2004, for utilization of 54 percent. This higher demand enabled the division to increase average revenue per operating hour by 11 percent over the prior year. Although upstream drilling activity was marginally lower year over year, Precision's service rig division was able to increase revenue and began to capitalize on the commitment made toward the reinvestment in its people and equipment. Operating costs were marginally higher year over year on a per operating hour basis. The higher service rig activity provided better coverage of lower fixed overhead costs but not enough to offset higher major maintenance costs associated with equipment repair and certification. Precision's service rig fleet was unchanged in 2004 at 239 rigs, representing an industry market share of approximately 26 percent.

Live Well's snubbing unit activity increased approximately 10 percent over 2003 as demand for snubbing continued to gain momentum in line with the industry's emphasis on natural gas production. Revenue increased $7 million or 33 percent over 2003 to $28 million. With the acquisition of two snubbing units in December 2003, the fleet size increased to 25 units. Operating earnings rose by 63 percent over 2003 due to the growth in fleet size and higher pricing.

Precision Rental's revenue increased $4 million or 10 percent over 2003 to $43 million. Operating earnings rose by 13 percent over 2003 despite a one percent decline in industry drilling activity. Precision Rentals was more profitable as a result of pricing improvements on a number of product categories. In 2004, the division began to realize benefits and synergies from the restructuring process to take advantage of a consolidated marketing group and the centralization of certain business functions.

Other Items

2005 Compared to 2004

Corporate and Other Expenses Corporate and other expenses increased by $33 million or 116 percent in 2005 as compared to 2004. Included in these expenses are $18 million in costs associated with the conversion to an income trust comprising a one-time severance payment of $13 million to a senior executive and $5 million in legal, accounting and advisory fees. Excluding those costs, corporate and other expenses increased by $15 million or 53 percent year over year of which $6 million is attributable to a reduction in foreign exchange gains and the remaining $9 million to severance and retention bonus payments, increased legal and advisory fees related to other internal reorganization activities, examining strategic and financing alternatives, and increased internal and external audit costs to comply with financial reporting requirements.

Interest Expense Net interest expense of $29 million declined by 37 percent in 2005 compared to 2004. This reduction is attributable to the repayment of the outstanding bonds (debentures) in October 2005 and from being in a surplus cash position, to the date of trust conversion, which generated $10 million in interest income.

Premium on Redemption of Bonds In October 2005, the outstanding bonds were repaid, resulting in a charge of $72 million that was absent in 2004.

Loss on Disposal of Short-term Investments Precision received 26 million shares of Weatherford International Ltd. as part of the consideration for the disposal of the Energy Services and International Contract Drilling divisions. Substantially all of the shares were transferred to shareholders in conjunction with the November 7, 2005 plan of arrangement and a $71 million loss was incurred.

Discontinued Operations During the third quarter of 2005, Precision completed two significant business divestitures. These businesses contributed $74 million in net earnings which have been included in discontinued operations. Combined with the gains on disposition in the amount of $1.3 billion, discontinued operations contributed net earnings of $1.4 billion towards the financial results in fiscal 2005.

First, Precision disposed of its Energy Services and International Contract Drilling divisions to Weatherford, resulting in an after tax gain of $1.2 billion. Precision has recorded a $20 million receivable in conjunction with a working capital calculation pursuant to the agreement. This amount is subject to change depending on the outcome of ongoing discussions with the purchaser and could result in an adjustment to the proceeds on disposition. Management estimates that ultimate settlement of this issue will not have a material impact on the recorded gain on disposal of discontinued operations.

Second, Precision disposed of the industrial services business carried on by CEDA for an after tax gain of $132 million.

Income Taxes Precision's effective tax rate on earnings from continuing operations before income taxes was 25 percent in 2005 compared to 35 percent in 2004. The decrease in the tax rate is primarily a result of the conversion to an income trust in November 2005 which has the effect of shifting the income tax burden of the Trust to the unitholders. The Trust incurs taxes to the extent that there are federal large corporation and certain provincial capital taxes, as well as taxes on any taxable income, of its underlying subsidiaries, not distributed to unitholders. In addition, future income taxes arise from differences between the accounting and tax basis of the operating entities assets and liabilities.

2004 Compared to 2003

Corporate and Other Expenses Corporate and other expenses increased by $14 million or 97 percent in 2004 as compared to 2003. These costs are primarily associated with the corporate executive, human resources, internal audit, information technology, treasury, tax, and financial reporting functions. Expenses increased in conjunction with the growth of the organization and with the complexities associated with Precision's former strategy to globalize its business. In addition, heightened regulatory requirements, in particular those associated with the Sarbanes-Oxley Act, have resulted in increased personnel requirements.

Interest Expense Net interest expense of $46 million increased by 36 percent in 2004 compared to 2003. Average net debt outstanding (borrowings less cash on hand) increased nine percent as acquisitions made in 2004 were partially financed by additional borrowings. The combination of the issuance of common shares and long-term debentures to finance acquisitions and strong cash flow from operations resulted in a change in the make up of Precision's net debt outstanding. In the first half of 2004, a portion of net debt took the form of short-term borrowings on its bank facilities at relatively low interest rates. These short-term borrowings were replaced with long-term debentures at higher interest rates. Interest expense was inflated by fees related to bridge financing facilities put in place in conjunction with acquisitions completed during the year.

Income Taxes Precision's effective tax rate on earnings from continuing operations before income taxes was 35 percent in 2004 consistent with the rate of 34 percent experienced in 2003.

Liquidity and Capital Resources

In 2005, dispositions of the Energy Services and International Contract Drilling divisions and CEDA provided proceeds of $1.3 billion. Cash flow from operations was $203 million, while the exercise of share purchase options and increases in long-term debt and sources of funds through financing activities added $227 million. An additional $15 million was provided from the sale of Weatherford shares that were not distributed as part of the plan of arrangement. Precision incurred capital expenditures from continuing operations, net of dispositions of capital assets, of $140 million and capital spending for discontinued operations of $110 million. In conjunction with the CEDA disposition, Precision purchased all the outstanding shares of CASCA Electric Ltd. and CASCA Tech Inc. for $30 million. A total of $844 million was paid to shareholders as part of the plan of arrangement, while $704 million was used to repay the outstanding public debt. In addition, $43 million was used to repurchase and cancel the common shares held by dissenting shareholders and $64 million was used in settlement of share purchase options. On December 15, 2005, the initial monthly cash distribution of the Trust for November, 2005 in the amount of $34 million, was paid to unitholders.

The Trust exited 2005 with a long-term debt to long-term debt plus equity ratio of eight percent and a ratio of long-term debt to cash flow from operations of 48 percent.

In 2006, Precision expects cash provided by continuing operations, before an estimated use of funds in the amount of $200 million for working capital changes, to be approximately $550 million. Net capital expenditures are expected to be $285 million with $165 million directed towards organic growth initiatives to expand equipment fleets and the remaining $120 million towards sustaining and upgrading existing property, plant and equipment assets. There was bank indebtedness and long-term debt in the combined amount of $117 million at December 31, 2005. On the basis that the Trust sustains cash distributions at a monthly rate of $0.27 per unit throughout the year, total cash distributions in the amount of $407 million are expected to be paid to unitholders assuming an average of 125.5 million units outstanding during the year. Given these estimates and forecast amounts, Precision expects long-term debt to increase by approximately $340 million to exit 2006 with a balance close to $435 million. The application of funds towards the $200 million estimated change in working capital balances and a partial use of funds for growth-oriented capital expenditures is expected to weaken the long-term debt to long-term debt plus equity ratio from eight percent in 2005 to approximately 27 percent in 2006. There was working capital in the amount of $153 million on December 31, 2005 and Precision expects this amount to increase to approximately $350 million to exit 2006.

Precision has a number of committed and uncommitted lines of credit available to finance its activities. The committed facilities consist of a $550 million three-year revolving unsecured credit facility with a syndicate led by a Canadian chartered bank. The facility matures in November 2008, and is extendible annually with the consent of lenders. The facility has three financial covenants which are tested quarterly: total liabilities to equity of less than 1:1, total debt to the trailing four quarters' cash flow of less than 2.75:1 and total distributions to unitholders of less than 100 percent of consolidated cash flow, as defined in the credit facility agreement. As at December 31, 2005, Precision was well within the financial covenant levels, and is expected to remain so for 2006. There was $97 million outstanding under the committed facilities at December 31, 2005. In addition to the committed facilities, Precision also has a number of uncommitted operating facilities which total approximately $66 million equivalent and are utilized for working capital management and the issuance of letters of credit.

The Corporation's contractual obligations are outlined in the following table:

		Payments Due by Period			
(Stated in thousands of Canadian dollars)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Long-term debt	96,838	–	96,838	–	–
Operating leases	27,900	7,362	10,167	7,334	3,037
Total contractual obligations	124,738	7,362	107,005	7,334	3,037

Outstanding Unit/Share Data

	February 28 2006	December 31 2005	December 31 2004
Trust units/common shares	124,352,921	124,352,921	121,580,424
Exchangeable LP units	1,108,382	1,108,382	–
Options to purchase common shares	–	–	6,695,120

Distributions

Upon Precision's conversion to an income trust effective November 7, 2005, the Trust adopted a policy of making regular monthly cash distributions to unitholders. As previously disclosed in the Information Circular of Precision Drilling Corporation dated October 3, 2005, distributions may be reduced, increased or suspended entirely depending on the operations of Precision and the performance of its assets. The actual cash flow available for distribution to holders of Trust units and holders of Exchangeable LP units is a function of numerous factors, including the Trust's: financial performance; debt covenants and obligations; working capital requirements; maintenance and expansion capital expenditure requirements for the purchase of property, plant and equipment; and number of units outstanding.

The Trust considers these factors on a monthly basis and made its first payment in December in the amount of $34 million at the rate of $0.27 for each outstanding unit including Exchangeable LP units. At December 31, 2005 there were 125,461,303 Trust and Exchangeable LP units outstanding. In December, a distribution of $0.27 per unit plus a special distribution of $0.022 per unit was declared by the Trust with a payment of $37 million being made on January 17, 2006.

The declaration of trust, the governing document of Precision Drilling Trust, provides that, if necessary, on December 31 of each year, the Trust will make an additional amount payable such that the Trust will not be liable for ordinary income taxes for such year. Reference can be made to "Certain Canadian Federal Income Tax Considerations – Taxation of the Trust" on pages 46 to 47 of the Special Meeting Information Circular dated October 3, 2005.

Quarterly Financial Summary

(Stated in thousands of Canadian dollars except per unit/share amounts, which are presented on a diluted basis)

Year ended December 31, 2005	Q1	Q2	Q3	Q4	Year
Revenue	**383,407**	**157,895**	**300,016**	**427,861**	**1,269,179**
Operating earnings	**153,020**	**24,505**	**111,956**	**175,897**	**465,378**
Earnings from continuing operations	**88,281**	**9,308**	**2,382**	**120,877**	**220,848**
Per unit/share	**0.71**	**0.07**	**0.08**	**0.96**	**1.76**
Net earnings	**138,518**	**25,851**	**1,382,648**	**83,546**	**1,630,563**
Per unit/share	**1.11**	**0.21**	**11.00**	**0.66**	**13.00**
Cash provided by (used in) continuing operations	**91,762**	**117,722**	**42,359**	**(48,742)**	**203,101**

Year ended December 31, 2004	Q1	Q2	Q3	Q4	Year
Revenue	361,524	134,963	218,023	313,978	1,028,488
Operating earnings	131,570	24,065	61,799	113,879	331,313
Earnings from continuing operations	80,427	10,127	36,995	60,582	188,131
Per unit/share	0.71	0.09	0.31	0.49	1.61
Net earnings	100,519	15,995	42,707	88,183	247,404
Per unit/share	0.89	0.14	0.36	0.71	2.11
Cash provided by continuing operations	48,657	186,709	21,536	30,919	287,821

Fourth Quarter Discussion

Sustained high crude oil and natural gas prices generated a strong environment for the oilfield services business in Canada. The unusually wet spring and early summer caused many of the oil and natural gas customers to delay drilling programs. This, along with high customer cash flows set the stage for the extremely busy fourth quarter which had activity levels not normally seen until the middle of the winter season. This left customers with an abundance of wells to be drilled in order to meet production targets. This demand, coupled with the weather pattern that occurred in the fourth quarter of 2005 created an almost perfect scenario. Unseasonably warm weather temperatures and dry conditions were ideal after exiting an extremely wet second quarter. Customers were able to extend summer drilling programs and mitigate land expiry issues. It was also beneficial to customers who did not have rigs reserved for the winter and required windows to complete projects as rigs were delayed moving north.

Contract Drilling Service's revenue of $308 million and operating earnings of $155 million increased by 36 percent and 57 percent in the fourth quarter of 2005 compared to the same period of 2004, respectively. Record fourth quarter activity and the impact of increased winter dayrates which took effect during the quarter were the primary reasons for this change. Rig demand in the quarter remained extremely strong and reached unprecedented levels.

Completion and Production Service's revenue of $124 million and operating earnings of $51 million increased by 35 percent and 87 percent in the fourth quarter of 2005 compared to the same period of 2004, respectively. Precision Well Servicing also set new highs for activity and profitability in the fourth quarter. Completion work was abundant due to record drilling activity combined with pent-up demand from weather delays in the first half of the year. Workover demand was high as customers scheduled wells for production maintenance to take advantage of strong commodity prices. Winter pricing took effect October 1, 2005. Live Well's snubbing revenues for the fourth quarter increased year over year even though activity decreased slightly as customers were reluctant to release the rig assist units into the market place and were charged standby fees. Precision Rentals had record revenue and operating earnings due to increased utilization and pricing on select product categories as a result of continued strong demand for equipment throughout the quarter.

Precision Drilling and Precision Well Servicing rig operations experienced an activity level increase of 19 percent and 11 percent with utilization of 68 percent and 65 percent in the quarter, respectively. The drilling rig fleet achieved 14,350 operating days in the fourth quarter of 2005 and the service rig fleet generated 142,122 operating hours. Continued favourable commodity prices and good weather conditions set the environment for these results. Traditional winter pricing rate increases were addressed to start the fourth quarter and benefited from an equipment supply/demand shortfall carried over from the third quarter. As a result, Precision Drilling was able to increase revenue per drilling rig operating day by an average of 12 percent during the fourth quarter and PWS was able to raise service rig rates per operating hour by 23 percent.

Fourth quarter operating costs were lower as a percentage of revenue despite crew wage rate increases of approximately seven percent effective October 1, 2005. Operating expenses declined from 51 percent of revenue in the fourth quarter of 2004 to 45 percent in 2005. Consistent with the third quarter 2005 results, equipment repair and maintenance expenses were lower on a per day basis as scheduled costs were spread over a higher activity level relative to the last year. In addition, operating expenses have not increased to the same magnitude as customer pricing.

Corporate and other costs, after excluding one time trust conversion costs of $18 million were up $1 million to $13 million from $12 million in 2004. This increase was a result of an increase in foreign exchange expense of $3 million offset by lower general and administrative costs due to the resizing of the corporate function to meet the needs of the smaller business organization.

In the fourth quarter, capital expenditures amounted to $45 million of which $17 million was for the construction of new drilling rigs. Two of the scheduled 19 new builds were completed and commenced drilling in the quarter. The remaining $28 million was for maintenance capital expenditures to sustain and upgrade existing equipment.

Critical Accounting Estimates

This Management's Discussion and Analysis of Precision's financial condition and results of operations is based on its consolidated financial statements which are prepared in accordance with Canadian generally accepted accounting principles. The Trust's significant accounting policies are described in Note 1 to its consolidated financial statements. The preparation of these financial statements requires that certain estimates and judgments be made that affect the reported assets, liabilities, revenues and expenses. These estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot be done with certainty, therefore, these estimates may change as new events occur, more experience is acquired and as the Trust's operating environment changes.

The accounting estimates believed to require the most difficult, subjective or complex judgments and which are the most critical to our reporting of results of operations and financial position are as follows:

Allowance for Doubtful Accounts Receivable

Precision performs ongoing credit evaluations of our customers and grants credit based upon past payment history, financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. Precision's history of bad debt losses has been within expectations and generally limited to specific customer circumstances, however, given the cyclical nature of the oil and natural gas industry and the inherent risk of successfully finding hydrocarbon reserves, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Business Divestiture Receivable

In conjunction with disposition of the Energy Services and International Contract Drilling divisions, Precision estimated and recorded a $20 million receivable regarding a working capital and property, plant and equipment adjustment. This amount is subject to change depending on the outcome of ongoing discussions with the purchaser and could result in an adjustment to the proceeds on disposition. Management estimates that ultimate settlement of this issue will not have a material impact on the recorded gain on disposal of discontinued operations.

Impairment of Long-lived Assets

Long-lived assets, which include property, plant and equipment, intangibles and goodwill, comprise the majority of Precision's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. This requires Precision to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future. During the fourth quarter of 2005, Precision completed its goodwill assessment and concluded that there was no impairment of the carrying value.

Depreciation and Amortization

Precision's property, plant and equipment and its intangible assets are depreciated and amortized based upon estimates of useful lives and salvage values. These estimates may change as more experience is gained, market conditions shift or new technological advancements are made.

Effective January 1, 2005, Precision changed the useful life of its drilling rigs for purposes of determining depreciation expense to 5,000 utilization days from 4,150 utilization days (3,650 operating days), and its drill strings to 1,500 from 1,100 operating days. Utilization days include both operating and rig move days. This change in accounting estimate has been applied prospectively and resulted in an $11 million reduction of depreciation expense or $0.09 per unit for the year ended December 31, 2005.

Income Taxes

The corporate subsidiaries of the Trust use the liability method which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions and clarifications of uncertain tax regimes may require changes to the valuation allowances associated with the Trust's future tax assets.

The business and operations of Precision are complex and Precision has executed a number of significant financings, business combinations, acquisitions and dispositions over the course of its history. The computation of income taxes payable as a result of these transactions, and in particular those completed within the last five years, involves many complex factors as well as Precision's interpretation of relevant tax legislation and regulations. Precision's management believes that the provision for income tax is adequate.

However, there are a number of tax filing positions that can still be the subject of review by taxation authorities who may successfully challenge Precision's interpretation of the applicable tax legislation and regulations, with the result that additional taxes could be payable by Precision and the amount payable could be up to $300 million.

Business Risks

The discussion of risk that follows is not a complete representation. Refer to the "Cautionary Statement Regarding Forward-looking Information and Statements" on page 2.

Certain activities of Precision are affected by factors that are beyond its control or influence. The Canadian drilling rig, camp and catering, service rig, snubbing, rentals and related service businesses and activities of Precision are directly affected by fluctuations in the levels of exploration, development and production activity carried on by its customers which, in turn, is dictated by numerous factors, including world energy prices and government policies. The addition, elimination or curtailment of government regulations and incentives could have a significant impact on the oil and gas business in Canada. These factors could lead to a decline in the demand for Precision's services, resulting in a material adverse effect on revenues, cash flows, earnings and cash distributions to unitholders. The majority of Precision's operating costs are variable in nature which minimizes the impact of downturns on our operational results.

Crude Oil and Natural Gas Prices

Precision's revenue, cash flow and earnings are substantially dependent upon, and affected by, the level of activity associated with oil and natural gas exploration and production. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Oil and natural gas prices and, therefore, the level of drilling, exploration and production activity have been volatile over the past few years and likely will continue to be volatile. Crude oil prices in 2005 ranged from a low of US$43 per barrel to a high of nearly US$70 per barrel. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for, and the supply of, oil and natural gas. North American oilfield service activity is largely focused on natural gas. Natural gas in 2005 averaged almost US$9 per mmbtu and ranged from an approximate low and high of US$7 and US$16 per mmbtu respectively. Weather conditions, governmental regulation (both in Canada and elsewhere), levels of consumer demand, the availability of pipeline capacity, and other factors beyond Precision's control may also affect the supply of and demand for oil and natural gas and thus lead to future price volatility. Precision believes that any prolonged reduction in oil and natural gas prices would depress the level of exploration and production activity. Lower oil and natural gas prices could also cause Precision's customers to seek to terminate, renegotiate or fail to honour Precision's drilling contracts; which could affect the fair market value of its rig fleet which in turn could trigger a write-down for accounting purposes; which could affect Precision's ability to retain skilled rig personnel; and which could affect Precision's ability to obtain access to capital to finance and grow its businesses. There can be no assurance that the future level of demand for Precision's services or future conditions in the oil and natural gas industry will not decline.

Workforce Availability

Precision's ability to provide reliable services is dependent upon the availability of well-trained, experienced crews to operate our field equipment. Precision must also balance the requirement to maintain a skilled workforce with the need to establish cost structures that fluctuate with activity levels.

Within Precision, the most experienced people are retained during periods of low utilization by having them fill lower level positions on field crews. Precision has established training programs for employees new to the oilfield service sector and works closely with industry associations to ensure competitive compensation levels and attract new workers to the industry as required. Many of Precision's businesses are currently experiencing manpower shortages. These shortages are likely to be further challenged by the number of rigs being added to the industry along with the entrance and expansion of newly formed oilfield service companies.

Business is Seasonal

In Canada, the level of activity in the oilfield service industry is influenced by seasonal weather patterns. During the spring months, wet weather and the spring thaw make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels and placing an increased level of importance on the location of our equipment prior to imposition of the road bans. Additionally, certain oil and natural gas producing areas are located in sections of the WCSB that are inaccessible, other than during the winter months, because the ground surrounding or containing the drilling sites in these areas consists of terrain known as muskeg. Until the muskeg freezes, the rigs and other necessary equipment cannot cross the terrain to reach the drilling site. Moreover, once the rigs and other equipment have been moved to a drilling site, they may become stranded or otherwise unable to relocate to another site should the muskeg thaw unexpectedly. Precision's business results depend, at least in part, upon the severity and duration of the Canadian winter.

Technology

Technological innovation by oilfield service companies has improved the effectiveness of the entire exploration and production sector over the industry's 140-year history. Drilling time has been reduced due to improvements in drill bits, logging and measurement while drilling tools, as well as innovative changes in other areas such as mud systems and top drives. Precision's ability to deliver services that are more efficient is critical to continued success.

Customer Merger and Acquisition Activity

Merger and acquisition activity in the oil and natural gas exploration and production sector can impact demand for our services as customers focus on internal reorganization activities prior to committing funds to significant drilling and maintenance projects.

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of Precision's disclosure controls and procedures as of December 31, 2005 and have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Trust or its divisions is made known to them.

Outlook

Global macro energy fundamentals remain positive as worldwide energy demand continues to be firm, supported to a large extent by the growing economies of China, southeast Asia and India. OPEC has remained disciplined and rational with respect to managing the supply dynamics for oil and worldwide production capacity is challenged to meet growing needs. Natural gas fundamentals are also strong in the face of healthy industrial demand and ongoing production challenges. These factors, which analysts are predicting will not change in the foreseeable future, have led to the sustainment of historically high crude oil and natural gas prices. As a result, the financial capabilities of Precision's customers have been greatly strengthened over the past year and the returns they are generating are compelling them to increase their exploration and development spending.

Macro energy fundamentals for Precision's Canadian businesses are expected to be largely driven by North American natural gas prices, production and consumption. Increasingly, oilfield service activity in Canada is weighted towards natural gas production. Short-term natural gas fundamentals will be impacted by industrial and residential consumption associated with seasonal heating and air conditioning demand. Accordingly, weather patterns play a large role in natural gas storage levels and impact near-term natural gas pricing. Warm weather conditions throughout North America during the fourth quarter of 2005 resulted in lower natural gas pricing to close out the 2005/2006 winter.

With these medium to long-term fundamentals as the backdrop, Precision anticipates demand for its oilfield services to be robust in 2006. The Canadian Association of Oilwell Drilling Contractors is forecasting just over 26,000 wells to be drilled, on a rig release basis, in the WCSB in 2006, an all time high. A recurring challenge Precision faces in filling the increased demand for its services is attracting employees with sufficient expertise and training. Precision is focused on recruiting, training and retaining people so that it can continue to respond to customers needs.

The first quarter of 2006 has provided an excellent start to the year. Precision began the year at high levels as customers were extremely well prepared to pursue their winter drilling, completion and production programs. To the extent that warm weather was an issue, customers were prepared to shift well locations to ensure high equipment utilization, thereby avoiding costly standby charges or loss of equipment use. With industry's growing emphasis on spreading drilling activity throughout the year, load leveling practices bode well for the seasonally soft second and third quarters. Given that there is a healthy inventory of wells to be drilled, completed and maintained, second quarter slow downs caused by weather could heighten demand and allow for a repeat of last year, which led to a sharp rebound in third quarter activity and provided pricing leverage to start the winter drilling season. The most important factor, however, would be a repeat of the record upward trend in natural gas prices.

During the fourth quarter of 2005, Precision announced a growth initiative to construct 19 new drilling rigs that will expand the fleet by eight percent over the following 12 to 15 months. These new rigs are of a versatile design and are being built to meet customer specifications. Ten of the new builds will be of Precision's proprietary Super Single® design, with the remaining nine rigs being diesel electric light triples rated to a depth of 4,000 metres. Customer commitments on many of these rigs are symbolic of the current strength in demand for drilling in Canada, as the contract term from the date of rig commission will carry through to the first quarter of 2011. Industry indications suggest that an additional 100 drilling rigs will be added by drilling contractors within the WCSB during 2006. This would increase the industry drilling fleet to 870 rigs to a level that is unprecedented. In the event that demand softens, the additional industry capacity could put the market in an oversupply position. This would impact pricing and lower profitability for drilling contractors and other oilfield service businesses.

Precision has and will continue to apply conservative financial principles in managing its balance sheet and to remain opportunistic in its pursuit of North American growth opportunities.

MANAGEMENT'S REPORT TO THE UNITHOLDERS

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to the consolidated financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles (GAAP) appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon the Trust's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2005 to December 31, 2004 and the years ended December 31, 2004 to December 31, 2003. Note 16 to the consolidated financial statements describes the impact on the consolidated financial statements of significant differences between Canadian and United States GAAP.

Management maintains an appropriate system of internal control designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

KPMG LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Trust's most recent annual and special meeting, to audit the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of three independent directors who are not employees of the Trust, provides oversight to the financial reporting process. Integral to this process is the Audit Committee's review and discussion with management and the external auditors of the quarterly and annual financial statements and reports prior to their respective release. The Audit Committee is also responsible for reviewing and discussing with management and the external auditors major issues as to the adequacy of the Trust's internal controls. The consolidated financial statements have been approved by the Board of Trustees on the recommendation of the Board of Directors of Precision Drilling Corporation and its Audit Committee.

Hank B. Swartout
Chairman and Chief Executive Officer
Precision Drilling Corporation,
Administrator to Precision Drilling Trust

March 7, 2006

Doug J. Strong
Chief Financial Officer
Precision Drilling Corporation,
Administrator to Precision Drilling Trust

March 7, 2006

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Precision Drilling Trust as at December 31, 2005 and 2004 and the consolidated statements of earnings and retained earnings (deficit) and cash flow for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

KPMG LLP

Chartered Accountants
Calgary, Alberta
March 2, 2006

CONSOLIDATED BALANCE SHEETS

(Stated in thousands of dollars)

As at December 31,	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ –**	$ 122,012
Accounts receivable *(Note 19)*	**500,655**	309,292
Inventory	**7,035**	7,734
Assets of discontinued operations *(Note 21)*	**–**	497,036
	507,690	936,074
Property, plant and equipment, net of accumulated depreciation *(Note 4)*	**943,900**	897,584
Intangibles, net of accumulated amortization of $413 (2004 – $380)	**465**	498
Goodwill	**266,827**	266,827
Deferred financing costs	**–**	9,116
Assets of discontinued operations *(Note 21)*	**–**	1,741,950
	$ 1,718,882	$ 3,852,049
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness *(Note 6)*	**$ 20,468**	$ –
Accounts payable and accrued liabilities *(Note 19)*	**134,303**	120,432
Incomes taxes payable	**163,530**	13,624
Distributions payable *(Note 5)*	**36,635**	–
Liabilities of discontinued operations *(Note 21)*	**–**	244,707
	354,936	378,763
Long-term debt *(Note 7)*	**96,838**	718,850
Future income taxes *(Note 12)*	**192,517**	354,268
Liabilities of discontinued operations *(Note 21)*	**–**	78,427
Unitholders' equity:		
Unitholders' capital *(Note 8)*	**1,377,875**	1,274,967
Contributed surplus *(Note 8)*	**–**	26,024
Cumulative translation adjustment *(Note 18)*	**–**	(20,933)
Retained earnings (deficit)	**(303,284)**	1,041,683
	1,074,591	2,321,741
Commitments and contingencies *(Notes 11 and 20)*		
	$ 1,718,882	$ 3,852,049

See accompanying notes to consolidated financial statements.

Approved by the Board:

Robert J.S. Gibson
Trustee

Patrick M. Murray
Trustee

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

(Stated in thousands of dollars, except per unit/share amounts)

Years ended December 31,	2005	2004	2003
Revenue	**$ 1,269,179**	$ 1,028,488	$ 915,170
Expenses:			
Operating	**641,805**	566,297	544,163
General and administrative	**76,397**	64,149	42,662
Depreciation and amortization	**71,561**	74,829	78,112
Foreign exchange	**(3,474)**	(8,100)	(2,216)
Reorganization costs *(Note 9)*	**17,512**	–	–
	803,801	697,175	662,721
Operating earnings	**465,378**	331,313	252,449
Interest:			
Long-term debt *(Note 7)*	**38,735**	46,575	34,492
Other	**558**	246	115
Income	**(10,023)**	(541)	(541)
Premium on redemption of bonds *(Note 7)*	**71,885**	–	–
Loss on disposal of short-term investments *(Note 21)*	**70,992**	–	–
Gain on disposal of investments	**–**	(4,899)	(1,493)
Earnings from continuing operations before income taxes	**293,231**	289,932	219,876
Income taxes: *(Note 12)*			
Current	**241,402**	53,698	40,828
Future	**(169,019)**	48,103	34,900
	72,383	101,801	75,728
Earnings from continuing operations	**220,848**	188,131	144,148
Gain (loss) on disposal of discontinued operations, net of tax *(Note 21)*	**1,335,382**	(616)	17,460
Discontinued operations, net of tax *(Note 21)*	**74,333**	59,889	18,866
Net earnings	**1,630,563**	247,404	180,474
Retained earnings, beginning of year *(Note 3)*	**1,041,683**	794,279	613,805
Adjustment on cash purchase of employee stock options, net of tax of $22,060 *(Note 8)*	**(42,087)**	–	–
Reclassification from contributed surplus on cash buy-out of employee stock options *(Note 8)*	**23,215**	–	–
Distribution of disposal proceeds *(Note 21)*	**(2,851,784)**	–	–
Repurchase of common shares of dissenting shareholders *(Note 8)*	**(34,364)**	–	–
Distributions *(Note 5)*	**(70,510)**	–	–
Retained earnings (deficit), end of year	**$ (303,284)**	$ 1,041,683	$ 794,279
Earnings per unit/share from continuing operations: *(Note 13)*			
Basic	**$ 1.79**	$ 1.63	$ 1.33
Diluted	**$ 1.76**	$ 1.61	$ 1.31
Earnings per unit/share: *(Note 13)*			
Basic	**$ 13.22**	$ 2.14	$ 1.66
Diluted	**$ 13.00**	$ 2.11	$ 1.63

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Stated in thousands of dollars)

Years ended December 31,	2005	2004	2003
Cash provided by (used in):			
Continuing operations:			
Earnings from continuing operations	**$ 220,848**	$ 188,131	$ 144,148
Items not affecting cash:			
Depreciation and amortization	**71,561**	74,829	78,112
Stock-based compensation	**11,229**	8,190	6,366
Future income taxes	**(169,019)**	48,103	34,900
Write-off of deferred financing costs	**7,664**	–	–
Loss in market value of short-term investments	**70,992**	–	–
Gain on disposal of investments	**–**	(4,899)	(1,493)
Amortization of deferred financing costs	**1,453**	1,579	1,286
Unrealized foreign exchange gain on long-term monetary items	**(4,740)**	(4,284)	(42)
Changes in non-cash working capital balances *(Note 19)*	**(6,887)**	(23,828)	(62,356)
	203,101	287,821	200,921
Discontinued operations *(Note 21)*:			
Funds provided by discontinued operations	**183,330**	187,018	89,051
Changes in non-cash working capital balances of discontinued operations	**(86,310)**	(26,797)	(31,545)
	97,020	160,221	57,506
Investments:			
Business acquisitions, net of cash acquired *(Note 15)*	**(30,421)**	(679,814)	(6,800)
Purchase of property, plant and equipment	**(155,231)**	(122,692)	(96,193)
Purchase of intangibles	**(20)**	–	(6)
Proceeds on sale of property, plant and equipment	**15,174**	8,795	11,341
Purchase of property, plant and equipment of discontinued operations	**(128,214)**	(159,532)	(218,728)
Purchase of intangibles of discontinued operations	**–**	(320)	–
Proceeds on sale of property, plant and equipment of discontinued operations	**17,785**	21,145	13,082
Proceeds on disposal of investments	**–**	8,665	10,966
Proceeds on disposal of short-term investments	**14,569**	–	–
Investments	**–**	(90)	(1,080)
Proceeds on disposal of discontinued operations	**1,306,799**	49,299	67,274
	1,040,441	(874,544)	(220,144)
Financing:			
Increase in long-term debt	**96,826**	522,136	85,228
Repayment of long-term debt	**(703,970)**	(173,260)	(145,657)
Deferred financing costs on long-term debt	**–**	(5,612)	–
Distribution of disposal proceeds *(Note 21)*	**(844,334)**	–	–
Distributions *(Note 5)*	**(33,875)**	–	–
Issuance of common shares, net of costs	**–**	276,428	–
Issuance of common shares on exercise of options	**73,930**	55,361	23,613
Repurchase of common shares of dissenting shareholders	**(43,299)**	–	–
Cash buy-out of employee stock options	**(64,147)**	–	–
Issuance of trust units on exercise of options	**8,263**	–	–
Issuance of trust units on purchase of options	**5,504**	–	–
Changes in non-cash working capital balances	**22,060**	–	–
Change in bank indebtedness	**20,468**	(147,909)	2,588
	(1,462,574)	527,144	(34,228)
Increase (decrease) in cash and cash equivalents	**(122,012)**	100,642	4,055
Cash and cash equivalents, beginning of year	**122,012**	21,370	17,315
Cash and cash equivalents, end of year	**$ –**	$ 122,012	$ 21,370

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts stated in thousands of dollars except per unit/per share amounts)

Precision Drilling Trust (the "Trust") is a provider of contract drilling, service rig and ancillary services to oil and natural gas exploration and production companies in Canada.

The Trust is an unincorporated, open-ended investment trust governed by the laws of Alberta and created pursuant to a declaration of trust dated September 22, 2005. On September 29, 2005, the Trust, Precision Drilling Limited Partnership ("PDLP"), 1194312 Alberta Ltd., 1195309 Alberta ULC., and Precision Drilling Corporation ("Precision") entered into an Arrangement Agreement ("Plan of Arrangement" or "Plan") to convert Precision to an income trust. As part of the Plan of Arrangement, on November 7, 2005, Precision Drilling Corporation and certain of its subsidiaries were amalgamated and continued as one corporation ("PDC"). After giving effect to the Plan and related transactions, all of the shares of PDC are owned by PDLP and indirectly by the Trust.

Prior to the Plan of Arrangement effective date of November 7, 2005, the consolidated financial statements included the accounts of Precision, its subsidiaries and its partnerships, substantially all of which were wholly-owned. The conversion to a trust has been accounted for on a continuity of interest basis and accordingly, the consolidated financial statements reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business formerly carried on by Precision. Due to the conversion to a trust, certain information included in the consolidated financial statements for prior periods may not be directly comparable. For purposes of these consolidated financial statements, the share capital of PDC is reported under Unitholders' capital (Note 8). Pursuant to the Plan of Arrangement, shareholders ultimately received either trust units or a combination of trust units and exchangeable LP units of PDLP for previously held common shares of Precision (other than dissenting shareholders, who received cash equal to the fair value of their shares). After giving effect to the Plan of Arrangement, the consolidated financial statements include the accounts of the Trust, its subsidiaries and its partnerships.

The beneficiaries of the Trust are the holders of Trust units and the partners of PDLP are the holders of exchangeable LP units and the Trust. The monthly distributions made by the Trust are determined by the Trustees. PDLP earns interest income from a promissory note issued by its subsidiary PDC at a rate which is determined by the terms of the promissory note. PDLP in substance pays distributions to holders of exchangeable LP units in amounts equal to the distributions paid to the holders of Trust units. All distributions are made to unitholders of record on the last business day of each calendar month.

1. Significant accounting policies:

Continuing Operations

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Trust, its subsidiaries and its partnerships, substantially all of which are wholly-owned at December 31, 2005.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less.

(c) Inventory:

Inventory is primarily comprised of operating supplies and spare parts and is carried at the lower of average cost, being the cost to acquire the inventory, and replacement cost. Inventory is charged to operating expenses as items are sold or consumed at the amount of the average cost of the item.

(d) Property, plant and equipment:

Property, plant and equipment are carried at cost, including costs of direct material, labor, and indirect overhead for manufactured items. Where costs are incurred to extend the useful life of property, plant and equipment or to increase its capabilities, the amounts are capitalized to the related asset. Costs incurred to repair or maintain property, plant and equipment are expensed as incurred.

Drilling rig equipment is depreciated by the unit-of-production method based on 5,000 utilization days (3,650 drilling days for the year ended December 31, 2004 – see Note 2) with a 20 percent salvage value. Drill pipe and drill collars are depreciated over 1,500 drilling days (1,100 drilling days for the year ended December 31, 2004 – see Note 2) and have no salvage value. Service rig equipment is depreciated by the unit-of-production method based on 24,000 hours for single and double rigs and 48,000 hours for heavy double rigs. Service rigs have a 20% salvage value.

Rental equipment is depreciated by the straight-line method over periods ranging from 10 to 15 years. Other equipment is depreciated by the straight-line method over periods ranging from three to ten years.

Light duty vehicles are depreciated by the straight-line method over four years. Heavy-duty vehicles are depreciated by the straight-line method over periods ranging from seven to ten years.

Buildings are depreciated by the straight-line method over periods ranging from 10 to 20 years.

(e) Intangibles:

Intangibles, which are comprised primarily of patents, are recorded at cost and amortized by the straight-line method over their useful lives ranging from 10 to 12 years. The weighted average amortization period is 12 years, and amortization over the next five years is anticipated to be $75,000 per year.

(f) Goodwill:

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Trust's reporting segments that are expected to benefit from the business combination.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared with its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of a reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(g) Long lived assets:

On a periodic basis, management assesses the carrying value of long lived assets for indications of impairment. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Trust tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

(h) Investments:

Investments in shares of associated companies, over which the Trust has significant influence, are accounted for by the equity method. Other investments are carried at cost. If there are other than temporary declines in value, these investments are written down to their net realizable value.

(i) Deferred financing costs:

Costs associated with the issuance of long-term debt are deferred and amortized by the straight-line method over the term of the debt. The amortization is included in interest expense.

(j) Income taxes:

Income earned directly by PDLP is not subject to income taxes as its income is taxed directly to the PDLP partners. The Trust is a taxable entity under the Income Tax Act (Canada) and income earned is taxable only to the extent it is not distributed or distributable to its unitholders. As the Trust distributes all of its taxable income to its respective unitholders pursuant to the requirements of the trust indenture, it does not make a provision for future income taxes.

PDC and its subsidiares follow the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs.

(k) Revenue recognition:

The Trust's services are generally sold based upon purchase orders or contracts with the customer that include fixed or determinable prices based upon daily, hourly or job rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services and equipment rentals are rendered and only when collectability is reasonably assured.

(l) Employee benefit plans:

At December 31, 2005, approximately 52% (2004 – 33%) of the Trust's employees were enrolled in the Trust's defined contribution retirement plans.

Employer contributions to defined contribution plans are expensed as employees earn the entitlement and contributions are made.

The Trust had entered into an employment agreement with a senior officer, which provided for a one-time payment upon retirement. The amount of this retirement allowance increased by a fixed amount for each year of service over a ten year period commencing April 30, 1996. The estimated cost of this benefit was being accrued and charged to earnings on a straight-line basis over the ten year period. This retirement allowance was paid during the year ended December 31, 2005 (see Note 10).

(m) Foreign currency translation:

Accounts of the Trust's integrated foreign operations are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the year-end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net earnings.

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at current rates. Gains and losses are included in net earnings.

(n) Stock-based compensation plans:

The Trust had equity incentive plans, which are described in Note 8. The fair value of common share purchase options was calculated at the date of grant using the Black-Scholes option pricing model and that value was recorded as compensation expense on a straight-line basis over the grant's vesting period with an offsetting credit to contributed surplus. Upon exercise of the equity purchase option, the associated amount was reclassified from contributed surplus to unitholders' capital. Consideration paid by employees upon exercise of equity purchase options was credited to unitholders' capital.

(o) Exchangeable shares:

Exchangeable shares are presented as equity of the Trust as their features make them economically equivalent to trust units.

(p) Per unit amounts:

Basic per unit amounts are calculated using the weighted average number of trust units outstanding during the year. Diluted per unit amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase trust units at the average market price during the period. The weighted average number of units outstanding is then adjusted by the difference between the number of units issued from the exercise of options and units repurchased from the related proceeds.

Share and per share amounts prior to the trust conversion on November 7, 2005 are referred to as unit or per unit amounts in the consolidated financial statements.

(q) Measurement uncertainty:

Certain items recognized in the consolidated financial statements are subject to measurement uncertainty as they are based on management's estimate using current information and judgment. The effect on the consolidated financial statements of changes in such estimates in future years could be significant.

Discontinued Operations

(a) Employee benefit plans:

At December 31, 2004, approximately 36% of employees of discontinued operations were enrolled in retirement plans. Of that, approximately 6% of participating employees were enrolled in the defined benefit plan and approximately 94% in the defined contribution plan.

Employer contributions to defined contribution plans were expensed as employees earned the entitlement and contributions were made.

The Trust accrued the cost of pensions earned by employees under its defined benefit plan, which was actuarially determined using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets were valued at quoted market value at the balance sheet date. The discount rate used to calculate the interest cost on the accrued benefit obligation was the long-term market rate at the balance sheet date. Past service costs from plan amendments were amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment (EARSL). The excess of the net cumulative unamortized actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market value of plan assets was amortized over EARSL.

(b) Foreign currency translation:

Accounts of the Trust's self-sustaining operations were translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Assets and liabilities were translated at the year-end current exchange rate.

Gains or losses resulting from these translation adjustments were included in the cumulative translation account in unitholders' equity.

Gains and losses arising on translation of long-term debt designated as a hedge of self-sustaining foreign operations were deferred and included in the cumulative translation account in unitholders' equity on a net of tax basis.

(c) Hedging relationships:

The Trust utilized foreign currency long-term debt to hedge its exposure to changes in the carrying values of the Trust's net investment in certain self-sustaining foreign operations as a result of changes in foreign exchange rates.

To be accounted for as a hedge, the foreign currency long-term debt must be designated and documented as a hedge, and must be effective at inception and on an ongoing basis. The documentation defined the relationship between the foreign currency long-term debt and the net investment in the foreign operations, as well as the Trust's risk management objective and strategy for undertaking the hedging transaction. The Trust formally assessed, both at the hedge's inception and on an ongoing basis, whether the changes in fair value of the foreign currency long-term debt is highly effective in offsetting changes in the fair value of the net investment in the foreign operations. If the hedging relationship was terminated or ceased to be effective, hedge accounting was not applied to subsequent gains or losses. Any previously deferred amounts were carried forward and recognized in earnings in the same period as the hedged item.

(d) Research and engineering:

Research and engineering costs were charged to income as incurred. Costs associated with the development of new operating tools and systems were expensed during the period unless the recovery of these costs could be reasonably assured given the existing and anticipated future industry conditions. Upon successful completion and field testing of the tools, any deferred costs were transferred to the related capital asset accounts.

2. Accounting estimates:

Effective January 1, 2005, the Trust changed the useful life of its drilling rigs for purposes of determining depreciation expense to 5,000 utilization days from 4,150 utilization days (3,650 drilling days), and its drill string to 1,500 from 1,100 drilling days. Utilization days include both operating and rig move days. This change in accounting estimate has been applied prospectively and resulted in a $10.7 million reduction in depreciation expense, or $0.09 per diluted unit/share, for the year ended December 31, 2005.

3. Accounting changes:

Stock-based compensation plans

Effective January 1, 2004, the Trust adopted the revised Canadian accounting standards with respect to accounting for stock-based compensation. Under those standards, the fair value of common share purchase options is calculated at the date of the grant and that value is recorded as compensation expense over the vesting period of those grants. Under the previous standard, no compensation expense was recorded when stock options were issued with any consideration received upon exercise credited to share capital.

The Trust has retroactively applied this standard, with restatement of prior years, to all common share purchase options granted since January 1, 2002. This has resulted in a charge to net earnings for the year ended December 31, 2004 of $13.8 million (2003 – $8.2 million) or $0.11 diluted earnings per share (2003 – $0.08) and a reduction to opening retained earnings of $14.5 million at January 1, 2004 ($6.3 million at January 1, 2003).

4. Property, plant and equipment:

2005	Cost	Accumulated Depreciation	Net Book Value
Rig equipment	**$ 1,163,970**	**$ 386,191**	**$ 777,779**
Rental equipment	**81,099**	**35,307**	**45,792**
Other equipment	**102,727**	**62,852**	**39,875**
Vehicles	**68,911**	**20,703**	**48,208**
Buildings	**32,830**	**9,580**	**23,250**
Land	**8,996**	**–**	**8,996**
	$ 1,458,533	**$ 514,633**	**$ 943,900**

2004	Cost	Accumulated Depreciation	Net Book Value
Rig equipment	$ 1,070,428	$ 341,827	$ 728,601
Rental equipment	77,246	32,117	45,129
Other equipment	111,820	63,939	47,881
Vehicles	58,391	16,359	42,032
Buildings	32,901	8,715	24,186
Land	9,755	–	9,755
	$ 1,360,541	$ 462,957	$ 897,584

5. Distributions payable:

Distributions were declared on trust and exchangeable LP units of $0.27 per unit for the month ended November 30, 2005 and $ 0.27 per unit plus a special distribution of $0.022 per unit for the month ended December 31, 2005. Total distributions were $70.5 million, of which $33.9 million was paid on December 15, 2005 and $36.6 million was paid on January 17, 2006.

6. Bank indebtedness:

At December 31, 2005, the Trust has available $60.0 million (December 31, 2004 – $63.0 million) and US$5.0 million (December 31, 2004 – US$30.7 million) under uncommitted, unsecured credit facilities, of which $20.5 million had been drawn (December 31, 2004 – $nil). Availability of these facilities was reduced by outstanding letters of credit in the amount of $8.4 million (December 31, 2004 – $33.3 million, of which $29.2 million related to discontinued operations). Advances under the facilities are available at the bank's prime lending rate, U.S. base rate, U.S. Libor plus applicable margin or Banker's Acceptance plus applicable margin, or in combination. The applicable margin is dependent on the Trust's consolidated debt to cashflow ratio.

7. Long-term debt:

	2005	2004
Extendible revolving unsecured facility	**$ 96,838**	$ –
Unsecured debentures - Series 1	**–**	200,000
Unsecured debentures - Series 2	**–**	150,000
Unsecured notes, US$300.0 million	**–**	368,850
	$ 96,838	$ 718,850

Extendible revolving unsecured facility:

At December 31, 2005, PDC, a subsidiary of the Trust, has available a three-year revolving unsecured facility of $550.0 million (or U.S. equivalent) with a syndicate led by a Canadian chartered bank which is guaranteed by the Trust. The facility matures November 2, 2008 and is renewable annually at the option of the lenders. Advances are available to PDC under this facility either at the bank's prime lending rate, U.S. base rate, U.S. Libor plus applicable margin or Bankers' Acceptance plus applicable margin or in combination. The applicable margin is dependent on the Trust's consolidated debt to cashflow ratio and the percentage of the total facility outstanding, which at December 31, 2005 was 75 basis points. The facility requires that the Trust maintain a ratio of total liabilities to total equity of less than 1:1 and a trailing 12 month ratio of consolidated debt to cash flow of less than 2.75:1.

The above facility replaces those facilities available and outstanding as at December 31, 2004 which were cancelled as follows:

For the year ended December 31, 2004, the Trust had a three-year revolving unsecured facility of $335.0 million (or U.S. equivalent) with a syndicate led by a Canadian chartered bank. The facility was to have matured August 31, 2007 and was renewable annually at the option of the lenders. Advances were available to the Trust under this facility either at the bank's prime lending rate, U.S. base rate, U.S. Libor plus applicable margin or Bankers' Acceptance plus applicable margin, or in combination. The applicable margin was dependent on the Trust's credit rating and the percentage of the total facility outstanding. The facility was extendable annually at the option of the lenders and required that the Trust maintain a ratio of total liabilities to total equity of less than 1:1 and a ratio of debt to cash flow of less than 2.75:1. No amounts were drawn on this facility at December 31, 2004.

Also for the year ended December 31, 2004, the Trust had a US$50.0 million unsecured facility with Export Development Canada (EDC) that was to have matured on December 8, 2005 and bore interest at six-month U.S. Libor plus applicable margin. The margin was dependent upon the Trust's margin on its $335.0 million three-year revolving unsecured credit facility, which at December 31, 2004 resulted in a margin of 0.8%. The facility was extendable upon mutual agreement between the Trust and EDC, or could be converted, at the Trust's option, to a term loan repayable in two equal semi-annual installments. No amounts were drawn on this facility at December 31, 2004.

Unsecured debentures:

During the fourth quarter of 2005, Precision repaid all of its outstanding debentures and notes pursuant to the early redemption provisions of the related agreements. The difference between the $766.7 million redemption price and the carrying value of the debentures was charged to income.

- The $200.0 million 6.85% Series 1 unsecured debentures was to have matured June 26, 2007 and had an effective interest rate of 7.44% after taking into account deferred financing costs. The debentures were redeemable at any time at the option of Precision upon payment of a redemption price equal to the greater of an amount calculated with reference to the yield on a Government of Canada bond with the same maturity, and par.
- The $150.0 million 7.65% Series 2 unsecured debentures was to have matured October 27, 2010 and had an effective interest rate of 7.71% after taking into account deferred financing costs. The debentures were redeemable at any time at the option of Precision upon payment of a redemption price equal to the greater of an amount calculated with reference to the yield on a Government of Canada bond with the same maturity, and par.

Unsecured notes:

- The US$300.0 million 5.625% unsecured notes were to have matured June 1, 2014 and had an effective interest rate of 5.71% after taking into account deferred financing costs. The notes were redeemable at any time at the option of Precision upon payment of a redemption price equal to the greater of an amount calculated with reference to the yield on a United States treasury security with the same maturity, and par.

Other:

- The $3.5 million unsecured term financing facility with EDC matured on January 20, 2004 and bore interest at six-month U.S. Libor plus applicable margin. The margin was dependent upon Precision's credit rating, which at December 31, 2003 resulted in a margin of 0.8%.

• The $26.2 million unsecured term financing facility with EDC was repaid and canceled in 2004 and bore interest at six-month U.S. Libor plus applicable margin. The margin was dependent upon Precision's credit rating, which at December 31, 2003 resulted in a margin of 0.9%.

Principal repayments after 2005 are as follows:

2006	$	–
2007		–
2008		96,838
Thereafter		–
2008	$	96,838

8. Unitholders' capital:

On November 7, 2005, Precision converted to an unincorporated, open-ended investment trust pursuant to a Plan of Arrangement. The Plan resulted in shareholders receiving one trust unit or one exchangeable LP unit or a combination thereof, for previously held common shares. Common shares held by shareholders who dissented to the Plan were repurchased and cancelled on the effective date of the Plan. All outstanding common share purchase options were converted to options to acquire trust units. The holder then had three options: exercise the options, have the Trust repurchase them for cash using the closing market price of the Trust one day prior to cash-out, or have the Trust repurchase the options as set-out above and use the proceeds to purchase an equivalent number of trust units.

(a) Authorized – unlimited number of voting trust units.
– unlimited number of voting exchangeable LP units

(b) Common shares:

	Number		Amount
Balance, December 31, 2002	54,066,753	$	913,087
Options exercised – cash consideration	778,925		23,613
– reclassification from contributed surplus	–		44
Balance, December 31, 2003	54,845,678	$	936,744
Issuance of common shares, net of costs and related tax effect	4,400,000		280,783
Options exercised – cash consideration	1,544,534		55,361
– reclassification from contributed surplus	–		2,079
Balance, December 31, 2004	60,790,212	$	1,274,967
Options exercised – cash consideration	578,346		24,516
– reclassification from contributed surplus	–		1,521
Balance, May 18, 2005	61,368,558	$	1,301,004
Issued on 2:1 stock split	61,368,558		–
Options exercised – cash consideration	1,679,110		49,414
– reclassification from contributed surplus	–		10,284
Adjustment to number of shares outstanding	21,960		–
Cancellation of shares owned by dissenting shareholders	(817,005)		(8,936)
Balance, November 7, 2005	**123,621,181**	**$**	**1,351,766**

Pursuant to the Plan, any shareholders of Precision could dissent and be paid the fair value of the shares, being the trading price at the close of business on the last business day prior to the Special Meeting of Securityholders on October 31, 2005. As a result, the Trust repurchased for cancellation a total of 817,005 shares for $43.3 million, of which a premium of $34.4 million over the stated capital was charged to retained earnings.

In the third quarter of 2004, the Trust issued 4,400,000 common shares at US$49.80 for net proceeds of approximately $276.5 million. Proceeds of the offering were primarily used to repay indebtedness incurred in connection with the acquisition of all of the issued and outstanding shares of Reeves Oilfield Services Ltd.

(c) Trust units:

	Number		Amount
Balance, November 7, 2005	–	$	–
Issued pursuant to the Plan	122,512,799		1,339,646
Options exercised – cash consideration	1,676,616		8,263
– reclassification from contributed surplus	–		12,342
Issued for cash	163,506		5,504
Balance, December 31, 2005	**124,352,921**	**$**	**1,365,755**

Trust units are redeemable at the option of the holder, at which time all rights with respect to such units are cancelled. Upon redemption, the unitholder is entitled to receive a price per unit equal to the lesser of 90% of the average market price of the Trust's units for the 10 trading days just prior to the date of redemption, and the closing market price of the Trust's units on the date of redemption. The maximum value of units that can be redeemed for cash is $50,000 per month. Redemptions, if any, in excess of this amount are satisfied by issuing a note from PDC to the unitholder, payable over 15 years and bearing interest at a market rate set by the Board of Directors.

	Number		Amount
Exchangeable LP units			
Balance, November 7, 2005	–	$	–
Issued pursuant to the Plan	1,108,382		12,120
Balance, December 31, 2005	**1,108,382**	**$**	**12,120**

Exchangeable LP units have voting rights and are exchangeable, after May 6, 2006, for trust units on a one-for-one basis at the option of the holder. Holders are entitled to monthly cash distributions equal to those paid to holders of trust units.

	Number		Amount
Summary:			
Trust units	**124,352,921**	**$**	**1,365,755**
Exchangeable LP units	**1,108,382**		**12,120**
Unitholders' capital	**125,461,303**	**$**	**1,377,875**

(d) Contributed surplus:

Balance, December 31, 2002	$	6,108
Stock-based compensation expense		8,202
Reclassification to common shares on exercise of options		(44)
Balance, December 31, 2003	$	14,266
Stock-based compensation expense		13,837
Reclassification to common shares on exercise of options		(2,079)
Balance, December 31, 2004	$	26,024
Stock-based compensation expense		13,077
Accelerated vesting of options on disposal of discontinued operations		5,205
Reclassification to common shares on exercise of options prior to the Plan		(11,805)
Accelerated vesting of options pursuant to the Plan		3,056
Reclassification to trust units on exercise of options		(12,342)
Reclassification to retained earnings on cash buy-out of options		(23,215)
Balance, December 31, 2005	**$**	**–**

(e) Equity incentive plans:

Prior to conversion to a Trust, Precision Drilling Corporation had equity incentive plans under which the exercise price of each option equaled the market value of Precision's stock on the date of grant and an option's maximum term was 10 years. Options vested over a period of one to four years from the date of grant as employees or directors rendered continuous service to Precision.

Options held by employees of the Energy Services and International Contract Drilling Divisions and of CEDA became fully vested when these businesses were sold during the third quarter of 2005 (see Note 21). Pursuant to the Plan, the remaining outstanding options were exchanged for newly vested options to acquire trust units. The exercise prices of the options to acquire trust units were adjusted downward to reflect the value of the transfer of certain assets to shareholders as part of the Plan. The options to acquire trust units expired on November 22, 2005.

Upon acceleration of the vesting of options, options holders were given the choice to pay the exercise price and receive a common share or trust unit, as applicable, or to surrender their option for a cash payment equal to the difference between the closing market value of the common share or trust unit one day prior to cash-out and the exercise price. All outstanding options were exercised prior to December 31, 2005.

A summary of the equity incentive plans, adjusted retroactively to reflect the 2 for 1 stock split on May 18, 2005, as at December 31, 2003, 2004 and 2005 and changes during the periods then ended is presented below:

Common Share Purchase Options:

	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Outstanding at December 31, 2002	8,238,656	$ 6.75 - 32.95	$19.47	3,255,554
Granted	832,000	24.64 - 25.52	25.31	
Exercised	(1,557,850)	6.75 - 25.50	15.17	
Cancelled	(726,418)	15.53 - 32.95	22.45	
Outstanding at December 31, 2003	6,786,388	$ 6.75 - 32.95	$20.85	4,076,396
Granted	3,381,000	20.13 - 36.32	31.77	
Exercised	(3,089,068)	6.75 - 28.78	17.92	
Cancelled	(383,200)	15.53 - 32.95	25.68	
Outstanding at December 31, 2004	6,695,120	$15.53 - 36.32	$27.44	2,580,302
Granted	696,200	37.76 - 48.29	41.42	
Exercised	(2,835,802)	15.53 - 48.29	26.07	
Cancelled	(141,650)	15.53 - 31.87	30.26	
Purchased	(1,105,018)	15.53 - 45.25	31.30	
Exchanged for trust unit purchase options	(3,308,850)	15.53 - 48.29	30.14	
Outstanding at December 31, 2005	**–**	**$ –**	**$ –**	**–**

Trust Unit Purchase Options:

	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Granted in exchange for Common share purchase options pursuant to the Plan	3,308,850	$ nil – 27.25	$ 9.16	3,308,850
Granted on repricing of common share options	5,600	nil	nil	
Exercised	(1,676,616)	nil – 27.25	4.93	
Purchased	(1,637,834)	nil – 27.25	13.46	
Outstanding at December 31, 2005	**–**	**$ –**	**$ –**	**–**

In accordance with the Trust's stock option plans, options have an initial exercise price equal to the market price at date of grant. The per share weighted average fair value of stock options granted during the year ended December 31, 2005 was $8.30 (2004 – $7.83; 2003 – $9.74) based on the date of grant valuation using the Black-Scholes option pricing model with the following assumptions: average risk-free interest rate of 3.28% (2004 – 3.44%; 2003 – 3.47%), average expected life of 2.92 years (2004 – 2.97 years; 2003 – 3.42 years) and expected volatility of 28.04% (2004 – 32.33%; 2003 – 47.00%).

For the year ended December 31, 2005, stock-based compensation costs included in net earnings totaled $21.3 million (2004 – $13.8 million; 2003 – $8.2 million), of which $10.1 million (2004 – $5.6 million; 2003 – $1.8 million) relates to discontinued operations.

9. Reorganization pursuant to Plan of Arrangement

To effect the reorganization into a trust, for the year ended December 31, 2005, the Trust incurred $17.5 million of reorganization costs comprised as follows:

Severance	$	12,600
Legal, accounting, financial advisory services and other		4,912
	$	17,512

10. Employee benefit plans:

The Trust has registered pension plans covering a significant number of its employees. Of participating employees in continuing operations, all participate in the defined contribution plan. Of participating employees in discontinued operations, approximately 94% participated in the defined contribution plan and approximately 6% participated in the defined benefit plan.

(a) Defined Contribution plan

Under the defined contribution plan, the Trust matches individual contributions up to 5% of the employee's compensation. Total expense under the defined contribution plan in 2005 was $8.5 million (2004 – $7.3 million; 2003 – $7.5 million), of which $3.2 million (2004 – $3.0 million; 2003 – $3.3 million) relates to discontinued operations.

(b) Defined Benefit plans

The defined benefit plans were acquired as part of the Reeves Oilfield Services Ltd. acquisition in 2004 (see Note 15) and was closed to new employees since the date of acquisition. The latest actuarial valuations of the defined benefit pension plans were at December 31, 2004. The measurement date used to determine plan assets and accrued benefit obligation was December 31, 2004. Significant actuarial assumptions adopted in measuring the Trust's accrued benefit obligation at the measurement date included a liability discount rate of between 5.5% and 6.0%, an expected long-term rate of return on plan assets of between 5.8% and 6.4% and a rate of compensation increase of between 3.8% and 5.0%, excluding promotions. At the measurement date, the plans had an unfunded deficit of $13.5 million as the accrued benefit obligation of $41.5 million exceeded plan assets of $28.0 million. The unfunded deficit liability was included in accounts payable and accrued liabilities in discontinued operations.

Expense under the defined benefit plans in 2004 totaled $1.1 million.

(c) Retirement allowance

With respect to the retirement allowance described in Note 1(l), the Trust charged $201,000 to earnings in 2005 (2004 – $335,000; 2003 – $351,000), and during the year ended December 31, 2005 paid $2.9 million as settlement of this liability. As at December 31, 2004, the Trust had accrued a total of $2.7 million, which amount is included in accounts payable and accrued liabilities.

11. Commitments:

The Trust has commitments for operating lease agreements, primarily for vehicles and office space, in the aggregate amount of $27.9 million. Payments over the next five years are as follows:

	Total
2006	$ 7,362
2007	5,832
2008	4,335
2009	3,674
2010	3,660

Rent expense included in the statements of earnings is as follows:

	Continuing Operations	Discontinued Operations	Total
2005	$ 2,679	$ 11,983	$ 14,662
2004	5,874	17,284	23,158
2003	5,258	18,666	23,924

12. Income taxes:

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	2005	2004	2003
Earnings from continuing operations before income taxes	**$ 293,231**	$ 289,932	$ 219,876
Income tax rate	**34%**	36%	36%
Expected income tax provision	**$ 99,699**	$ 104,375	$ 79,155
Add (deduct):			
Non-deductible expenses	**2,795**	4,965	1,234
Non-deductible stock-based compensation	**3,216**	2,948	2,292
Income of the Trust	**(23,980)**	–	–
Utilization of losses and surcharge credits	**(10,550)**	–	–
Non-taxable disposition of investment	**–**	–	(2,327)
Other	**1,203**	(7,600)	(1,948)
	72,383	104,688	78,406
Reduction of future tax balances due to substantively enacted tax rate reductions	**–**	(2,887)	(2,678)
	$ 72,383	$ 101,801	$ 75,728
Effective income tax rate	**25%**	35%	34%

In 2004, the Province of Alberta enacted a 1.0% reduction in tax rates (2003 and 2002 – 0.5%). This reduction was reflected as a reduction in future tax expense in the respective years.

The net future tax liability is comprised of the tax effect of the following temporary differences:

	2005	2004
Liabilities:		
Property, plant and equipment and intangibles	**$ 232,277**	$ 232,770
Operations of a partnership with different tax year	**–**	124,251
Deferred financing costs	**–**	1,584
	$ 232,277	$ 358,605
Assets:		
Bond redemption premium	**20,820**	$ –
Losses carried forward	**14,586**	–
Share issue costs	**3,039**	–
Accrued liabilities	**1,910**	4,337
Valuation allowance	**(595)**	–
	$ 39,760	$ 4,337
	$ 192,517	$ 354,268

PDC and its subsidiaries have available capital losses of $42.4 million of which, after valuation allowances, the benefit of $40.7 million has been recognized. These capital losses can be carried forward indefinitely.

During 2004, $7.5 million, representing future tax expense on foreign exchange gains associated with the Trust's US$300 million unsecured notes was charged to the cumulative translation account in unitholders' equity. This amount was related to the Trust's discontinued operations.

13. Per unit/share amounts:

The following table summarizes the units, adjusted retroactively for a 2 for 1 stock split on May 18, 2005, used in calculating earnings per unit/share:

For the years ended December 31,	2005	2004	2003
Weighted average units/shares outstanding – basic	**123,304**	115,654	108,860
Effect of unit/share purchase options	**2,108**	1,556	1,738
Weighted average units/shares outstanding – diluted	**125,412**	117,210	110,598

14. Significant customers:

During the year ended December 31, 2005 no customers (2004 – one customer; 2003 – two customers) accounted for more than 10% of the Trust's revenue.

15. Acquisitions:

Acquisitions have been accounted for by the purchase method with results of operations acquired included in the financial statements from the effective date of acquisition. The details of acquisitions for the past three years are as follows.

On July 29, 2005, the Trust completed the acquisition of all the issued and outstanding shares of CASCA Electric Ltd. and CASCA Tech Inc. for $30.4 million. No value was assigned to intangibles or goodwill. These operations have been included in discontinued operations.

During the year ended December 31, 2004, in accordance with the Trust's globalization and technology advancement strategies, the Trust completed several acquisitions, the most significant of which were:

a) On May 14, 2004, the Trust acquired all of the issued and outstanding shares of Reeves Oilfield Services Ltd. (Reeves), including a 56.5% interest in Allegheny Wireline Services, Inc. (Allegheny). On October 14, 2004, the Trust acquired the remaining 43.5% interest in Allegheny. In the intervening period from the date of acquisition of

Reeves to the acquisition of the remaining interest in Allegheny, earnings attributable to non-controlling interest totaled $1.3 million. Reeves provides open hole and cased hole logging services to the oil and gas industry with operations in Canada, the United States, Australia, Africa, Europe and the Middle East. Intangible assets acquired relate entirely to intellectual property. The Reeves operations have been included in discontinued operations.

b) On May 21, 2004, the Trust acquired land drilling assets, located in Venezuela and the Middle East, from GlobalSantaFe Corporation (GlobalSantaFe). Intangible assets acquired relate to non-competition agreements and customer contracts. The Global SantaFe operations have been included in discontinued operations.

	Reeves	GlobalSantaFe	Other	Total
Net assets acquired at assigned values:				
Working capital	$ 23,000[a]	$ 12,463	$ 60	$ 35,523
Intangible assets	106,900	33,138	–	140,038
Property, plant and equipment	41,730	296,655	1,547	339,932
Goodwill (no tax basis)	118,531	103,956	130	222,617
Non-controlling interest in earnings of intervening period	1,298	–	–	1,298
Future income taxes	(37,732)	(9,720)	–	(47,452)
	$ 253,727	$ 436,492	$ 1,737	$ 691,956
Consideration:				
Cash	$ 253,727	$ 436,492	$ 1,737	$ 691,956

[a] *Includes cash of $12,142*

In February 2003, Precision completed the acquisition of the operating assets of MacKenzie Caterers (1984) Ltd., a provider of oilfield camp and catering services in western Canada, for $6.8 million. No value was assigned to intangibles or goodwill.

16. United States generally accepted accounting principles:

These financial statements have been prepared in accordance with Canadian GAAP which conform with United States generally accepted accounting principles (U.S. GAAP) in all material respects, except as follows:

(a) Income taxes

In 2000 the Trust adopted the liability method of accounting for future income taxes without restatement of prior years. As a result, the Trust recorded an adjustment to retained earnings and future tax liability in the amount of $70.0 million at January 1, 2000. U.S. GAAP required the use of the liability method prescribed in the Statement of Financial Accounting Standards (SFAS) No. 109, which substantially conforms to the Canadian GAAP accounting standard adopted in 2000. Application of U.S. GAAP in years prior to 2000 would have resulted in $70.0 million of additional goodwill being recognized at January 1, 2000 as opposed to an implementation adjustment to retained earnings allowed under Canadian GAAP. Prior to 2002 goodwill was amortized under Canadian and U.S. GAAP. As a result, $7.0 million of amortization was recorded on the additional goodwill in 2000 and 2001 under U.S. GAAP. In 2003, 2004 and 2005, the U.S. GAAP financial statements would reflect an increase in goodwill of $63.0 million and a corresponding increase in retained earnings.

(b) Stock-based compensation

In 2004, under Canadian GAAP, the Trust adopted the fair value of accounting for stock-based compensation with restatement of prior years for share purchase options granted after January 1, 2002. U.S. GAAP allows the use of either the intrinsic method, as prescribed by Accounting Principles Board (APB) Opinion 25, or the fair value method as prescribed by SFAS 123. Where companies elect to use the intrinsic method, disclosure of the impact of using the fair value method is required.

Application of the intrinsic method in accordance with APB Opinion 25 would have resulted in an increase in net earnings of $21.3 million for 2005 (2004 – $13.8 million; 2003 – $8.2 million) and with a corresponding increase in unitholders' equity. Had the Trust determined compensation based on the fair value at the date of grant for its options under SFAS 123, net earnings in accordance with U.S. GAAP would have decreased to $1,588.5 million in 2005 (2004 decreased to $247.8 million; 2003 decreased to $180.7 million). Basic earnings per unit/share would have been $12.88 in 2005 (2004 – $2.14; 2003 – $1.66).

Under Financial Accounting Standards Board ("FASB") Intrepretation No. 44 (FIN 44") *Accounting for Certain Transactions Involving Stock Compensation*, compensation expense is required to be recognized on certain modifications to stock-based compensation plans. During the year ended December 31, 2005, employee stock options ("options") were subjected to a variety of changes or restructurings which included accelerated vesting, repricing on the date of conversion to an income trust to reflect the transfer of disposal consideration to Precision's shareholders just prior to conversion, or repurchase for cash depending on elections made by the option holders. Under Canadian GAAP, even with the repricing, the options were treated as equity awards and were not accounted for under a variable accounting method. However, under U.S. GAAP, the accelerated vesting represents a restructuring in the form of a modification that would result in a new measurement of compensation expense on the date of the modification using the intrinsic method. For award repricing, this restructuring only results in additional expense provided that the aggregate intrinsic value of the awards immediately after the change is not greater than that immediately before, and the ratio of exercise price per unit/share to the market value per unit/share is not reduced. To the extent that both the criteria are not met, the awards are accounted for under ABP Opinion 25 as a variable award from the date of restructuring to the date the award was exercised. For restructuring in the form of cash buy-out of the options, the intrinsic value was charged to retained earnings under Canadian GAAP, however, under U.S. GAAP the amount was charged to earnings.

(c) Redemption of trust units

Under the trust indenture, trust units are redeemable at any time on demand by the unitholder for cash and notes (see Note 8). Under U.S. GAAP, the amount included on the consolidated balance sheet for unitholders' equity would be moved to temporary equity and recorded at an amount equal to the redemption value of the trust units as at the balance sheet date. The same accounting treatment would be applicable to the exchangeable LP units. The redemption value of the trust units and the exchangeable LP units is determined with respect to the trading value of the trust units as at each balance sheet date, and the amount of the redemption value is classified as temporary equity. Changes (increases and decreases) in the redemption value during a period results in a change to temporary equity and is reflected as a reduction in earnings available to unitholders for the year.

(d) Acquisitions

Under U.S. GAAP, when significant acquisitions have occurred, supplemental disclosure is required on a pro forma basis of the results of operations for the current prior periods as though the business combination had occurred at the beginning of the period unless it is not practicable to do so. At December 31, 2005, the Trust did not have access to sufficient information to provide this disclosure for acquisitions completed in 2004.

(e) Recently issued accounting pronouncements

On December 16, 2004, FASB issued SFAS 123R *Share Based Payment – An Amendment of FASB Statement No. 123 and 95*. The Statement addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Companies will be required to recognize an expense for compensation cost related stock-based compensation on a basis consistent with SFAS 123 for periods beginning on or after June 15, 2005.

In December 2004, FASB issued Statement 153 *Exchanges of Nonmonetary Assets – An Amendment of APB Opinion 29.* This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges or similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Application is prospective beginning after June 15, 2005, and management does not expect this statement to have a material impact on the consolidated financial statements.

As of January 1, 2006, the Trust will be required to adopt, for U.S. GAAP purposes, *SFAS 154 Accounting Changes and Error Corrections – A Replacement of APB Opinion 20 and SFAS 3.* This Statement requires retrospective application of voluntary changes in accounting principles, unless it is impracticable. Management does not expect this standard to have a material impact on the consolidated financial statements.

The application of U.S. accounting principles would have the following impact on the consolidated financial statements:

Consolidated Statements of Earnings

Years ended December 31,	2005	2004	2003
Earnings from continuing operations under Canadian GAAP	**$ 220,848**	$ 188,131	$ 144,148
Adjustments under U.S. GAAP:			
Stock-based compensation expense	**11,229**	8,190	6,366
Cash buy-out of options	**(22,119)**	–	–
Intrinsic value recognized on options exercised and/or repriced	**(2,270)**	–	–
Earnings from continuing operations under U.S. GAAP	**207,688**	196,321	150,514
Earnings from discontinued operations under Canadian GAAP	**1,409,715**	59,273	36,326
Adjustments under U.S. GAAP:			
Stock-based compensation expense	**10,109**	5,647	1,836
Cash buy-out of options	**(19,968)**	–	–
Intrinsic value recognized on options exercised and/or repriced	**(11,796)**	–	–
Earnings from discontinued operations under U.S. GAAP	**1,388,060**	64,920	38,162
Net earnings under U.S. GAAP	**$ 1,595,748**	$ 261,241	$ 188,676
Cumulative translation adjustment	**–**	(20,933)	–
Comprehensive income under U.S. GAAP	**$ 1,595,748**	$ 240,308	$ 188,676
Net earnings under U.S. GAAP	**$ 1,595,748**	$ 261,241	$ 188,676
Change in redemption value of unitholders' capital	**(378,456)**	–	–
Net earnings available to unitholders under U.S. GAAP	**$ 1,217,292**	$ 261,241	$ 188,676
Earnings from continuing operations per unit/share under U.S. GAAP:			
Basic	**$ 1.68**	$ 1.70	$ 1.38
Diluted	**$ 1.66**	$ 1.67	$ 1.36
Earnings per unit/share under U.S. GAAP before change in redemption value of unitholders' capital:			
Basic	**$ 12.94**	$ 2.26	$ 1.73
Diluted	**$ 12.72**	$ 2.23	$ 1.71
Earnings per unit/share under U.S. GAAP after change in redemption value of unitholders' capital:			
Basic	**$ 9.87**	$ 2.26	$ 1.73
Diluted	**$ 9.71**	$ 2.23	$ 1.71

Balance Sheets

	December 31, 2005		December 31, 2004	
	As reported	U.S. GAAP	As reported	U.S. GAAP
Current assets	**$ 507,690**	**$ 507,690**	$ 936,074	$ 936,074
Property, plant and equipment	**943,900**	**943,900**	897,584	897,584
Intangibles	**465**	**465**	498	498
Goodwill	**266,827**	**329,856**	266,827	329,856
Other assets	**–**	**–**	9,116	9,116
Long-term assets of discontinued operations	**–**	**–**	1,741,950	1,741,950
	$ 1,718,882	**$ 1,781,911**	$ 3,852,049	$ 3,915,078
Current liabilities	**$ 354,936**	**$ 354,936**	$ 378,763	$ 378,783
Long-term debt	**96,838**	**96,838**	718,850	718,850
Future income tax liability	**192,517**	**192,517**	354,268	354,268
Liabilities of discontinued operations	**–**	**–**	78,427	78,407
Temporary equity	**–**	**4,304,665**	–	–
Unitholders' equity (deficit)	**1,074,591**	**(3,167,045)**	2,321,741	2,384,770
	$ 1,718,882	**$ 1,781,911**	$ 3,852,049	$ 3,915,078

17. Segmented information:

The Trust operates primarily in Canada, in two industry segments; Contract Drilling Services and Completion and Production Services. Contract Drilling Services includes drilling rigs, procurement and distribution of oilfield supplies, camp and catering services, and manufacture, sale and repair of drilling equipment. Completion and Production Services includes service rigs and hydraulic well assist snubbing units, and oilfield equipment rental.

2005	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	$ 916,221	$ 369,667	$ –	$ (16,709)	$ 1,269,179
Operating earnings	404,385	121,643	(60,650)	–	465,378
Depreciation and amortization	39,233	27,402	4,926	–	71,561
Total assets	1,159,687	486,701	72,494	–	1,718,882
Goodwill	172,440	94,387	–	–	266,827
Capital expenditures*	106,986	34,576	13,689	–	155,251

2004	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	$ 727,710	$ 313,386	$ –	$ (12,608)	$ 1,028,488
Operating earnings	282,315	77,074	(28,076)	–	331,313
Depreciation and amortization	42,245	27,508	5,076	–	74,829
Total assets	971,863	461,191	180,009	–	1,613,063
Goodwill	172,440	94,387	–	–	266,827
Capital expenditures*	74,975	31,759	15,958	–	122,692

2003	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	$ 663,619	$ 263,218	$ –	$ (11,667)	$ 915,170
Operating earnings	218,012	48,706	(14,269)	–	252,449
Depreciation and amortization	47,895	25,720	4,497	–	78,112
Total assets	919,383	448,067	90,984	–	1,458,434
Goodwill	172,440	94,387	–	–	266,827
Capital expenditures*	47,918	25,410	22,871	–	96,199

** Excludes business acquisitions*

18. Financial instruments:

(a) Fair value

The carrying value of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income tax payable and distributions payable approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of long-term debt approximates its carrying value as it bears interest at floating rates.

The fair values of the unsecured debentures and notes have been calculated with reference to the year end prevailing interest and foreign exchange rates and are as follows:

	December 31, 2005		December 31, 2004	
($ millions)	Carrying value	Fair Value	Carrying Value	Fair Value
Unsecured debentures – Series 1	–	–	200.0	215.4
Unsecured debentures – Series 2	–	–	150.0	174.5
Unsecured notes, US$300.0 million	–	–	368.9	384.8

(b) Credit risk

Accounts receivable includes balances from a large number of customers primarily operating in the oil and gas industry. The Trust assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Trust views the credit risks on these amounts as normal for the industry. As at December 31, 2005 the Trust's allowance for doubtful accounts was $5.1 million (December 31, 2004 – $13.7 million, of which $8.5 million related to discontinued operations).

(c) Interest rate risk

The Trust is exposed to interest rate risk with respect to interest expense on its extendible revolving credit facilities.

(d) Foreign currency risk

The Trust was exposed to foreign currency fluctuations in relation to its international operations prior to their disposal (see Note 21). To manage a portion of this exposure, the Trust designated the U.S. $300.0 million notes as a hedge against foreign currency fluctuations of its investment in self-sustaining foreign operations. A net foreign exchange gain of $10.1 million associated with these notes was included in the cumulative translation account during 2005 (2004 – gain of $43.1 million). The cumulative translation account at August 31, 2005 of $24.8 million was charged to the gain on disposal of discontinued operations.

19. Supplemental information:

		2005		2004		2003
Interest paid:						
– continuing operations	**$**	**43,232**	$	45,338	$	34,917
– discontinued operations		**304**		997		1,804
	$	**43,536**	$	46,335	$	36,721
Income taxes paid:						
– continuing operations	**$**	**91,496**	$	38,759	$	25,842
– discontinued operations		**35,176**		35,935		18,152
	$	**126,672**	$	74,694	$	43,994
Components of change in non-cash working capital balances:						
Accounts receivable	**$**	**(171,363)**	$	(42,714)	$	(98,501)
Inventory		**699**		(2,017)		1,269
Accounts payable and accrued liabilities		**13,871**		5,964		19,890
Income taxes payable		**149,906**		14,939		14,986
	$	**(6,887)**	$	(23,828)	$	(62,356)

The components of accounts receivable are as follows:

	2005	2004
Trade	**$ 306,264**	$ 203,976
Accrued trade	**148,537**	88,746
Prepaids and other	**45,854**	16,570
	$ 500,655	$ 309,292

The components of accounts payable and accrued liabilities are as follows:

	2005	2004
Accounts payable	**$ 71,027**	$ 25,658
Accrued liabilities		
Payroll	**30,351**	30,048
Other	**32,925**	64,726
	$ 134,303	$ 120,432

20. Contingencies:

The business and operations of the Trust are complex and the Trust has executed a number of significant financings, business combinations, acquisitions and dispositions over the course of its history. The computation of income taxes payable as a result of these transactions, and in particular those completed within the last five years, involves many complex factors as well as the Trust's interpretation of relevant tax legislation and regulations. The Trust's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, there are a number of tax filing positions that can still be the subject of review by taxation authorities who may successfully challenge the Trust's interpretation of the applicable tax legislation and regulations, with the result that additional taxes could be payable by the Trust and the amount payable could be up to $300.0 million.

The Trust, through the performance of its services, product sales and business arrangements, is sometimes named as a defendant in litigation. The outcome of such claims against the Trust is not determinable at this time, however, their ultimate resolution is not expected to have a material adverse effect on the Trust.

The Trust maintains a level of insurance coverage deemed appropriate by management for matters for which insurance coverage can be acquired.

21. Discontinued operations:

On August 31, 2005, the Trust sold its Energy Services and International Contract Drilling divisions to Weatherford International Ltd. ("Weatherford") for proceeds of approximately $1.13 billion cash and 26 million common shares of Weatherford, valued at $2.1 billion. In conjunction with the Plan of Arrangement, the Trust then transferred a total of $2.9 billion of this consideration to unitholders, being $844.3 million in cash and 25.7 million Weatherford common shares, valued at $2.0 billion which represents the fair value of the shares at the date of transfer. Included in the statement of earnings for the year ended December 31, 2005 is a loss on disposal of these shares of $71.0 million. In conjunction with this sale, a working capital adjustment has been included as part of the purchase and sale agreement. This adjustment is calculated based on the period January 1, 2005 to August 31, 2005 (the closing date of the sale) and is subject to certain interpretations and assessments as to the working capital balances as at August 31, 2005 and December 31, 2004. As at December 31, 2005, the Trust has included as part of the gain on disposal of discontinued operations an amount of $20.0 million owing to it, representing its best estimate of the final working capital adjustment. However, this amount is subject to change depending on the outcome of ongoing discussion and possible arbitration and could adjust the disposal proceeds. Management estimates that ultimate settlement of this issue will not have a material impact on the recorded gain on disposal of discontinued operations.

On September 13, 2005, the Trust sold its industrial plant maintenance business carried on by CEDA to Borealis Investments Inc., an investment entity of the Ontario Municipal Employees Retirement System, for proceeds of approximately $274.0 million. Included in the CEDA proceeds was $26.8 million for the purchase of all the issued and outstanding shares of CASCA Electric Ltd. and CASCA Tech Inc., a transaction undertaken by CEDA on July 29, 2005. The Energy Services, International Contract Drilling and CEDA assets were included in the Energy Services, Contract Drilling and Rental and Production segments respectively and were disposed in accordance with an extensive process undertaken by the Trust's board of directors to explore avenues of valuation creation for the Trust's unitholders.

On February 12, 2004, the Trust sold substantially all of the assets of Fleet Cementers, Inc. for proceeds of $25.7 million. On May 7, 2004, the Trust sold the assets of the Polar Completions division for proceeds of $15.0 million, subject to working capital adjustments. On August 31, 2004, the Trust sold its 65% interest in United Diamond Ltd. for proceeds of $8.5 million. Additional proceeds in the amount of up to $9.5 million are receivable with respect to the sale of United Diamond Ltd., contingent upon the extent of future business undertaken between the Trust and United Diamond Ltd. No portion of the $9.5 million of contingent proceeds has been recognized. These assets were included in the Energy Services segment and were disposed of as they were not a core component, at that time, to the energy services globalization strategy.

Effective January 1, 2003, the Trust sold Energy Industries Inc., a wholly-owned subsidiary for $60.0 million cash. Energy Industries designed and manufactured modularized natural gas compression packages. These assets were included in the Rental and Production segment and were disposed of as they were not a core component, at that time, to the globalization strategy.

In May 2003, the Trust sold its 50% interest in Energy Equipment Rentals General partnership ("EER") and Oil Drilling Exploration (Argentina) SA ("OD&E") for cash proceeds of $6.9 million, net of transaction costs. Both entities were components of the Contract Drilling segment and were disposed of as they were not a core component, at that time, to the contract drilling globalization strategy.

Results of the operations of these businesses have been classified as results of discontinued operations. The following table provides additional information with respect to amounts included in the results of discontinued operations:

	2005	2004	2003
Revenue			
Energy services	**$ 689,319**	$ 898,199	$ 762,536
International contract drilling	**204,987**	246,612	114,691
Industrial plant maintenance	**149,371**	175,802	174,246
	$ 1,043,677	$ 1,320,613	$ 1,051,473
Gain on disposal of Energy Industries	**$ –**	$ –	$ 13,071
Gain on disposal of EER and OD&E	**–**	–	4,389
Loss on disposal of Fleet Cementers' assets	**–**	(362)	–
Loss on disposal of United Diamond	**–**	(254)	–
Gain on disposal of Energy services and International contract drilling	**1,203,309**	–	–
Gain on disposal of Industrial plant maintenance	**132,073**	–	–
	$ 1,335,382	$ (616)	$ 17,460
Results of operations before income taxes			
Energy services	**$ 76,607**	$ 33,060	$ (12,631)
International contract drilling	**41,171**	65,043	42,959
Industrial plant maintenance	**18,135**	19,658	20,683
Other	**(22,298)**	(20,251)	(29,210)
Writedown of assets held for sale	**–**	(6,117)	(10,799)
	113,615	91,393	11,002
Income tax expense (recovery)	**39,282**	28,824	(9,616)
Results of operations, before non-controlling interest	**74,333**	62,569	20,618
Non-controlling interest	**–**	2,680	1,752
	74,333	59,889	18,866
Discontinued operations	**$ 1,409,715**	$ 59,273	$ 36,326

The following table provides additional information with respect to amounts included in the balance sheet as assets and liabilities of discontinued operations:

	2005	2004
Accounts receivable	**$ –**	$ 381,707
Inventory	**–**	106,618
Future income tax asset	**–**	8,711
Other	**–**	–
	$ –	$ 497,036
Property, plant and equipment	**$ –**	$ 1,047,937
Intangibles	**–**	191,167
Goodwill	**–**	468,586
Future income tax asset	**–**	34,260
	$ –	$ 1,741,950
Accounts payable and accrued liabilities	**$ –**	$ 219,940
Income taxes payable	**–**	17,479
Future income tax liability	**–**	7,270
Other	**–**	18
	$ –	$ 244,707
Future income tax liability	**$ –**	$ 78,407
Other	**–**	20
	$ –	$ 78,427

The following table provides additional information with respect to amounts included in the statements of cash flow related to discontinued operations:

	2005	2004	2003
Net earnings of discontinued operations	**$ 1,409,715**	$ 59,273	$ 36,326
Items not affecting cash:			
Loss (gain) on disposal of discontinued operations	**(1,335,382)**	616	(17,460)
Depreciation and amortization	**95,794**	130,163	101,016
Writedown of assets of discontinued operations	**–**	3,293	10,799
Stock-based compensation	**10,109**	5,647	1,836
Future income taxes	**(1,735)**	(17,383)	(26,965)
Gain on disposal of investments	**–**	–	(1,862)
Unrealized foreign exchange loss (gain) on long-term monetary items	**4,829**	2,729	(16,391)
Non-controlling interest	**–**	2,680	1,752
Funds provided by discontinued operations	**$ 183,330**	$ 187,018	$ 89,051

Components of changes in non-cash working capital balances of discontinued operations:

	2005	2004	2003
Accounts receivable	**$ (60,912)**	$ (93,743)	$ (12,175)
Inventory	**(23,463)**	5,725	(4,370)
Accounts payable and accrued liabilities	**1,688**	52,861	(15,327)
Income taxes payable	**(3,623)**	8,360	327
	$ (86,310)	$ (26,797)	$ (31,545)

22. Guarantees:

The Trust has entered into agreements indemnifying certain parties primarily with respect to tax and specific third party claims associated with businesses sold by the Trust. Due to the nature of the indemnifications, the maximum exposure under these agreements cannot be estimated. No amounts have been recorded for the indemnities as the Trust's obligations under them are not probable and estimable.

23. Related party transactions:

A director of PDC is a partner at a law firm used by PDC and the Trust for various legal matters. During the year ended December 31, 2005, the Trust incurred a total of $6.1 million in legal fees. These transactions were incurred in the normal course of business and were recorded at the exchange amounts.

SHARE TRADING SUMMARY

The Toronto Stock Exchange

(in Canadian dollars)	High ($)	Low ($)	Close ($)	Volume of Units/Shares	Value ($)
2005					
March 31	48.75	42.70	45.25	45,071,824	1,970,416,258
June 30	52.06	43.41	48.29	53,934,967	2,587,665,996
September 30	60.98	55.68	57.21	63,120,732	3,456,991,440
December 31	58.00	30.50	38.38	101,050,308	4,489,458,985
	60.98	30.50	38.38	263,177,831	12,504,532,679
2004					
March 31	33.75	27.95	30.65	34,474,650	1,075,594,484
June 30	34.69	29.08	31.87	40,331,590	1,273,947,954
September 30	36.62	31.28	36.32	32,232,546	1,075,975,183
December 31	39.35	34.66	37.76	37,885,030	1,399,243,059
	39.35	27.95	37.76	144,923,816	4,824,760,679
2003					
March 31	28.34	23.88	24.64	35,534,762	911,709,933
June 30	27.39	22.65	25.41	37,006,528	935,497,293
September 30	27.87	24.31	25.52	29,212,892	757,572,958
December 31	29.37	25.06	28.38	29,326,660	786,325,972
	29.37	22.65	28.38	131,116,842	3,391,106,156

Trust units are effective from November 7, 2005 to December 31, 2005.

On November 7, 2005 a special cash payment and the transfer of shares in Weatherford International Ltd. was made to shareholders.

The New York Stock Exchange

(in U.S. dollars)	High ($)	Low ($)	Close ($)	Volume of Units/Shares	Value ($)
2005					
March 31	39.85	28.89	37.33	36,040,200	1,281,553,471
June 30	41.64	34.64	39.48	44,946,100	1,714,473,479
September 30	51.72	38.08	49.20	48,167,700	2,146,444,231
December 31	49.76	25.85	33.00	33,319,300	1,246,508,332
	51.72	25.85	33.00	162,473,300	6,388,979,513
2004					
March 31	25.25	21.65	23.29	23,790,200	562,422,262
June 30	25.65	21.15	24.01	29,068,800	672,015,006
September 30	28.88	23.44	28.75	30,822,800	789,945,011
December 31	33.10	27.93	31.40	37,652,800	1,139,188,768
	33.10	21.15	31.40	121,334,600	3,163,571,047
2003					
March 31	19.00	15.55	16.69	29,471,600	504,181,610
June 30	20.26	15.63	18.88	27,418,400	495,853,163
September 30	20.11	17.50	18.83	29,922,400	565,302,743
December 31	22.04	18.92	21.84	23,032,200	464,932,490
	22.04	15.55	21.84	109,944,600	2,030,270,006

Trust units are effective from November 7, 2005 to December 31, 2005.

On November 7, 2005 a special cash payment and the transfer of shares in Weatherford International Ltd. was made to shareholders.

STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

(stated in millions of Canadian dollars except per unit/share amounts)

Years ended December 31,	2005	2004	2003
Revenue	**$ 1,269.2**	$ 1,028.5	$ 915.2
Expenses:			
Operating	**641.8**	566.3	544.2
General and administrative	**76.4**	64.2	42.7
Depreciation and amortization	**71.6**	74.8	78.1
Foreign exchange	**(3.5)**	(8.1)	(2.2)
Reorganization costs	**17.5**	–	–
Operating earnings	**465.4**	331.3	252.4
Interest, net	**29.3**	46.3	34.0
Premium on redemption of bonds	**71.9**	–	–
Loss on disposal of short-term investments	**71.0**	–	–
Gain on disposal of investments	**–**	(4.9)	(1.5)
Earnings from continuing operations before income taxes	**293.2**	289.9	219.9
Income taxes	**72.4**	101.8	75.7
Earnings from continuing operations	**220.8**	188.1	144.2
Discontinued operations	**1,409.8**	59.3	36.3
Net earnings	**1,630.6**	247.4	180.5
Retained earnings, beginning of period	**1,041.7**	794.3	613.8
Adjustment on cash purchase of employee stock options	**(42.1)**	–	–
Reclassification from contributed surplus on cash buyout of employee stock options	**23.2**	–	–
Distribution of disposal proceeds	**(2,851.8)**	–	–
Repurchase of common shares of dissenting shareholders	**(34.4)**	–	–
Distributions	**(70.5)**	–	–
Retained earnings (deficit), end of period	**$ (303.3)**	$ 1,041.7	$ 794.3
Earnings per unit/share from continuing operations:			
Basic ($)	**1.79**	1.63	1.33
Diluted ($)	**1.76**	1.61	1.31
Earnings per unit/share:			
Basic ($)	**13.22**	2.14	1.66
Diluted ($)	**13.00**	2.11	1.63

ADDITIONAL SELECTED FINANCIAL INFORMATION

(stated in millions of Canadian dollars except per unit/share amounts)

Years ended December 31,	2005	2004	2003
Returns			
Return on sales – %(1)	**17.4**	18.3	15.8
Return on assets – %(2)	**43.3**	7.3	6.3
Return on equity – %(3)	**66.1**	12.3	11.0
Financial Ratios			
Working capital	**$ 152.8**	$ 557.3	$ 249.0
Current ratio	**1.43**	2.47	1.57
PP&E and intangibles	**$ 944.4**	$ 898.1	$ 887.7
Total assets	**$ 1,718.9**	$ 3,852.0	$ 2,932.0
Long-term debt	**$ 96.8**	$ 718.9	$ 399.4
Unitholders' equity	**$ 1,074.6**	$ 2,321.7	$ 1,745.3
Long-term debt to long-term debt plus equity	**0.08**	0.24	0.19
Interest coverage(4)	**15.9**	7.2	7.4
Other Financial Data			
Net capital expenditures from continuing operations excluding business acquisitions	**$ 140.1**	$ 113.9	$ 84.9
EBITDA(5)	**$ 536.9**	$ 406.1	$ 330.6
EBITDA – % of revenue	**42.3**	39.5	36.1
Operating earnings	**$ 465.4**	$ 331.3	$ 252.4
Operating earnings – % of revenue	**36.7**	32.2	27.6
Cash flow from operations	**$ 203.1**	$ 287.8	$ 200.9
Cash flow from operations per unit/share			
Basic	**$ 1.65**	$ 2.49	$ 1.85
Diluted	**$ 1.62**	$ 2.46	$ 1.82
Book value per unit/share (6)	**$ 8.57**	$ 19.10	$ 15.91
Price earnings ratio(7)	**2.90**	17.6	17.1
Basic weighted average trust units/shares outstanding (000's)	**123,304**	115,654	108,860

(1) Return on sales was calculated by dividing earnings from continuing operations by total revenues.

(2) Return on assets was calculated by dividing net earnings by quarter average total assets.

(3) Return on equity was calculated by dividing net earnings by quarter average total unitholder's equity.

(4) Interest coverage was calculated by dividing operating earnings by net interest expense.

(5) Earnings before net interest, taxes, depreciation, amortization, non-controlling interest, dividend income, gain on disposal of investments and subsidiary, reduction in carrying amounts of investments and property, plant and equipment and discontinued operations. EBITDA is not a recognized measure under Canadian GAAP. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Trust's principal business activities prior to consideration of how those activities are financed or how the results are taxed in various jurisdictions and prior to the impact of depreciation and amortization. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Precision's performance. Precision's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

(6) Book value per unit/share was calculated by dividing unitholders' equity by units/shares outstanding.

(7) Year end closing priced divided by basic earnings per unit/share.

UNITHOLDER INFORMATION

Stock Exchange Listings
Units of Precision Drilling Trust are listed on the Toronto Stock Exchange under the trading symbol PD.UN, in U.S dollars under the trading symbol PD.U, and on the New York Stock Exchange under the trading symbol PDS.

Voting Rights
Unitholders receive one vote for each Trust unit or Precision Drilling Limited Partnership Class B limited partnership unit held.

Trust Unit Trading Profile

Toronto (TSX: PD.UN)
November 7, 2005 to December 31, 2005:

High: $39.75, Low $30.50

Volume Traded: 46,918,431

New York (NYSE: PDS)
November 7, 2005 to December 31, 2005:

High: US$34.01, Low US$25.85

Volume Traded: 12,797,300

Toronto (TSX: PD.U)
November 7, 2005 to December 31, 2005:

High: US$34.41, Low US$25.00

Volume Traded: 46,674

As a Precision Drilling Trust unitholder or as a holder of Class B limited partnership units of Precision Drilling Limited Partnership which are exchangeable on a one for one basis with units of the Trust, you are invited to take advantage of unitholder services or to request more information about Precision.

Account Questions
Our Transfer Agent can help you with a variety of unitholder related services, including:

- Change of address
- Lost unit certificates
- Transfer of trust units to another person
- Estate settlement

You can call our Transfer Agent toll free at:
1-888-267-6555

You can write to them at:
Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1

Or you can email them at:
caregistryinfo@computershare.com

Unitholders of record who receive more than one copy of this annual report can contact our Transfer Agent and arrange to have their accounts consolidated. Unitholders who own Precision Drilling Trust units through a brokerage firm can contact their broker to request consolidation of their accounts.

Quarterly Updates
If you would like to receive interim reports but are not a registered unitholder, please write or call us with your name and address. To receive our news releases by fax, please forward your fax number to us.

Online Information
To receive our news releases by email, or to view this annual report, please visit our website at www.precisiondrilling.com and refer to the Investor Relations section.

Published Information
If you wish to receive copies of the 2005 Annual Information Form as filed with the Canadian securities commissions and as filed under Form 40-F with the United States Securities and Exchange Commission, or additional copies of this annual report, please contact:

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Corporate Secretary

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Estimated Interim Release Date
2006 First Quarter - April 26, 2006

2006 Second Quarter - July 27, 2006

2006 Third Quarter - October 26, 2006

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Robert J.S. Gibson
Patrick M. Murray
Frederick W. Pheasey
Robert L. Phillips
Hank B. Swartout
H. Garth Wiggins
See page 41 for biographies

Officers

Hank B. Swartout
Chairman of the Board and
Chief Executive Officer

Gene C. Stahl
President and Chief Operating Officer

Doug J. Strong
Chief Financial Officer

Darren J. Ruhr
Vice President, Corporate Services and
Corporate Secretary

Lead Bank

Royal Bank of Canada
Calgary, Alberta

Auditor

KPMG LLP
Calgary, Alberta

Transfer Agent and Registrar

Computershare Trust Company of Canada
Calgary, Alberta

Transfer Point

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