

PRECISION DRILLING TRUST

Form 40-F

March 28, 2008

**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 40-F**

(Check One)

**Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934**  
**or**

**Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**  
**For the fiscal year ended December 31, 2007**

**Commission file number 001-14534**  
**PRECISION DRILLING TRUST**  
(Exact name of registrant as specified in its charter)

<b>Alberta, Canada</b> (Province or other jurisdiction of incorporation or organization)	<b>1381</b> (Primary Standard Industrial Classification Code Number (if applicable))	<b>Not applicable</b> (I.R.S. Employer Identification Number (if Applicable))
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**4200-150 6th Avenue, S.W., Calgary, Alberta, Canada T2P 3Y7**  
**(403) 716-4500**

(Address and Telephone Number of Registrant's Principal Executive Offices)

**CT Corporation System, North St. Paul Street, Dallas, Texas 77022**  
**(214) 979-1172**

(Name, Address (Including Zip Code) and Telephone Number  
(Including Area Code) of Agent For Service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
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Trust Units	New York Stock Exchange
Securities registered or to be registered pursuant to Section 12(g) of the Act. None	
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None.	

For annual reports, indicate by check mark the information filed with this Form:

Annual Information Form     Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 125,587,919 Trust Units outstanding as at December 31, 2007.

Indicate by check mark whether the Registrant by filing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the file number assigned to the Registrant in connection with such rule.

Yes  No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The Annual Report on Form 40-F shall be incorporated by reference into, or as an exhibit to, as applicable, the Registrant's Registration Statements under the Securities Act of 1933: Form F-10 (File No. 333-115330), Form S-8 (File No. 333-124811, 333-116492 and 333-105648).



**Principal Documents**

The following documents have been filed as part of this Annual Report on Form 40-F and are included immediately after this section:

- (a) Annual Information Form for the fiscal year ended December 31, 2007;
  - (b) Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2007; and
  - (c) Consolidated Financial Statements for the fiscal year ended December 31, 2007 (Note 16 to the Consolidated Financial Statements relates to United States Generally Accepted Accounting Principles (U.S. GAAP)).
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**PRECISION DRILLING TRUST**  
**ANNUAL INFORMATION FORM**  
*For the fiscal year ended December 31, 2007*  
*Dated March 25, 2008*

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APPENDIX 1 PRECISION DRILLING CORPORATION AUDIT COMMITTEE CHARTER AND  
TERMS OF REFERENCE

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**cautionary statement regarding forward-looking information and statements**

This Annual Information Form contains certain forward-looking information and statements, including 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, which 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* (collectively the forward-looking information and statements). Forward-looking information and statements are typically identified by words such as anticipate, could, should, expect, seek, may, intend, likely, will believe and similar expressions suggesting future outcomes or statements regarding an outlook.

Forward-looking information and statements are included throughout this Annual Information Form including under the headings General Development of the Business, Description of the Business of Precision and Risk Factors and include, but are not limited to statements with respect to:

2008 expected cash provided by continuing operations;

2008 capital expenditures, including the amount and nature thereof;

2008 distributions on Trust Units and payments on Exchangeable Units;

performance of the oil and natural gas industry, including oil and natural gas commodity prices and supply and demand;

expansion, consolidation and other development trends of the oil and natural gas industry;

demand for and status of drilling rigs and other equipment in the oil and natural gas industry;

costs and financial trends for companies operating in the oil and natural gas industry;

world population and energy consumption trends;

our business strategy, including the 2008 strategy and outlook for our business segments;

expansion and growth of our business and operations, including diversification of our earnings base, safety and operating performance, the size and capabilities of our drilling and service rig fleet, our market share and our position in the markets in which we operate;

demand for our products and services;

our management strategy, including transitions in executive roles;

labour shortages;

climatic conditions;

the maintenance of existing customer, supplier and partner relationships;

supply channels;

accounting policies and tax liabilities;

expected payments pursuant to contractual obligations;

the prospective impact of recent or anticipated regulatory changes;

financing strategy and compliance with debt covenants;

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. These statements are, however, subject to known and unknown risks and uncertainties and other factors. As a result, actual results, performance or achievements could differ materially from those expressed in, or implied by, these 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. These risks, uncertainties and other factors include, among others:

the impact of general economic conditions in Canada and the United States;

world energy prices and government policies;

industry conditions, including the adoption of new environmental, taxation and other laws and regulations and changes in how they are interpreted and enforced;

the impact of initiatives by the Organization of Petroleum Exporting Countries and other major petroleum exporting countries;

the ability of oil and natural gas companies to access external sources of debt and equity 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;

consolidation among our customers;

risks associated with technology;

political uncertainty, including risks of war, hostilities, civil insurrection, instability or acts of terrorism;

the lack of availability of qualified personnel or management;

credit risks;

increased costs of operations, including costs of equipment;

fluctuations in interest rates;

stock market volatility;

safety performance;

foreign operations;

foreign currency exposure;

dependence on third party suppliers;

opportunities available to or pursued by us;

and other factors, many of which are beyond our control.

These risk factors are discussed in this Annual Information Form, our Annual Report and Form 40-F on file with the Canadian securities commissions and the United States Securities and Exchange Commission and available on the Canadian System for Electronic Document Analysis and Retrieval ( SEDAR ) at [www.sedar.com](http://www.sedar.com) and the website of the U.S. Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov), respectively. Except as required by law, Precision Drilling Trust, Precision Drilling Limited Partnership 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.

The forward-looking information and statements contained in this Annual Information Form are expressly qualified by this cautionary statement.

## CORPORATE STRUCTURE

### INCORPORATION INFORMATION AND ADDRESS

#### The Trust

Precision Drilling Trust (the Trust ) is an unincorporated open-ended investment trust established under the laws of the Province of Alberta pursuant to a declaration of trust dated September 22, 2005 (the Declaration of Trust ). The Trust maintains its head office and principal place of business at 4200, 150 6th Avenue S.W., Calgary, Alberta, T2P 3Y7, telephone (403) 716-4500, facsimile (403) 264-0251, email info@precisiondrilling.com and website www.precisiondrilling.com.

The Trust issued units ( Trust Units ) to certain former shareholders of Precision Drilling Corporation ( Precision ) pursuant to a plan of arrangement which was approved by the former shareholders of Precision at a special meeting held on October 31, 2005 (the Plan of Arrangement ).

The notice of meeting and information circular (the 2005 Special Meeting Information Circular ) with respect to the Plan of Arrangement was filed on October 3, 2005 under the SEDAR profile for Precision, and on March 31, 2006 under the SEDAR profile for the Trust, available at www.sedar.com. Specified pages of the 2005 Special Meeting Information Circular are incorporated herein by reference.

#### Precision Drilling Limited Partnership

Precision Drilling Limited Partnership ( PDLP ) is a limited partnership formed pursuant to the laws of the Province of Manitoba. The Trust holds a 99.86% interest in PDLP through its holding of Class A Limited Partnership Units (the PDLP A Units ) and the remaining 0.14% of PDLP is held by former shareholders of Precision who elected to receive Class B Limited Partnership Units ( Exchangeable Units ) which are exchangeable into Trust Units on a one-for-one basis and are the economic equivalent of Trust Units. The head and principal offices of PDLP are located at 4200, 150 6th Avenue S.W., Calgary, Alberta, T2P 3Y7, telephone (403) 716-4500, facsimile (403) 264-0251 and email info@precisiondrilling.com.

#### Precision Drilling Corporation

Precision was originally incorporated on March 25, 1985 and carried out amalgamations with wholly-owned subsidiary companies on January 1, 2000, January 1, 2002, and January 1, 2004 pursuant to Articles of Amalgamation and other provisions of the *Business Corporations Act* (Alberta). On November 7, 2005 Precision became a wholly-owned subsidiary of PDLP. As part of the Plan of Arrangement, Precision amalgamated with a number of its wholly-owned subsidiaries. Precision also amalgamated with: 1195309 Alberta ULC on November 23, 2005; Live Well Service Ltd. on January 1, 2006; and Terra Water Group Ltd. ( Terra ) on January 1, 2007. In each amalgamation the name of the amalgamated company remained Precision Drilling Corporation . The head and principal offices of Precision are located at 4200, 150 6th Avenue S.W., Calgary, Alberta, T2P 3Y7, telephone (403) 716-4500, facsimile (403) 264-0251 and email info@precisiondrilling.com.

### INTERCORPORATE RELATIONSHIPS

The following table sets forth the names of the material subsidiaries (which includes major limited liability partnerships) of the Trust, the percent of shares (or interest) owned by the Trust and the jurisdiction of incorporation or continuance of each such subsidiary (or partnership) as of December 31, 2007:

<b>Name of Subsidiary or Partnership</b>	<b>Percent or Interest Owned</b>	<b>Jurisdiction of Incorporation or Continuance</b>
Precision Drilling Limited Partnership	99.86%	Manitoba
1194312 Alberta Ltd.	100%	Alberta
Precision Drilling Corporation	99.86%	Alberta

**Organizational Structure of the Trust**

The following diagram sets forth the organizational structure of the Trust and its material subsidiaries as of the date hereof:

**NOTES:**

- (1) As of December 31, 2007 there were 125,587,919 PDLP A Units outstanding.
- (2) As of December 31, 2007 there were 170,005 Exchangeable Units outstanding.
- (3) The interest of 1194312 Alberta Ltd. in PDLP is 0.001%.
- (4) Inter-company note owing by Precision to PDLP (the Promissory Note ).

**GENERAL DEVELOPMENT OF THE BUSINESS**

**THREE YEAR HISTORY**

In Canada, Precision is the largest provider of land based contract drilling services to oil and natural gas exploration and production companies, based on the size of its drilling rig fleet. Precision's continuing business services in Canada during 2007 comprised: contract drilling; well servicing; snubbing; procurement and distribution of oilfield supplies; camp and catering; manufacture and refurbishment of rig equipment; portable wastewater treatment; and rental of surface oilfield equipment, tubulars, well control equipment and wellsite accommodations. In the United States, Precision's business is primarily the provision of contract drilling services in land based markets.

In 2007 Precision increased capital spending on additions to property, plant and equipment to grow and upgrade its high performance drilling rig fleet in Canada and the United States, significantly expanded its contract drilling operations in the United States and mobilized one drilling rig for a project in Latin America.

Precision invested \$141 million in expansion capital for the purchase of property, plant and equipment and \$46 million in upgrade capital in 2007. In 2007 Precision commissioned 16 new drilling rigs and two new service rigs and decommissioned 11 drilling and 16 service rigs.

The expansion of Precision's Contract Drilling Services segment in the United States began in June 2006 with the deployment of one Super Single rig drilling to Texas. In 2007 Precision deployed an additional seven Super Single rigs and four triple diesel-electric rigs for work contracted in Texas, Colorado, Oklahoma and Wyoming. In early 2008 Precision also mobilized one additional Super Single rig to Colorado and one additional triple diesel-electric rig to New York, bringing its fleet of high performance drilling rigs operating in the United States to 14, and entered into contracts for the delivery of three additional new Super Single rigs to Colorado in 2009. As conditions warrant, Precision may deploy additional rigs from Canada into the United States market.

Precision converted to an income trust effective November 7, 2005. Upon conversion, the Trust began making monthly distributions to holders of Trust Units ( Trust Unitholders ) and holders of Exchangeable Units ( Exchangeable Unitholders ) (together Unitholders ). The Trust has a legal entity structure whereby Precision Drilling Trust effectively must flow its taxable income to Trust Unitholders pursuant to its Declaration of Trust. Distributions may be reduced, increased or suspended entirely depending on the operations of Precision and the performance of its assets, or legislative changes in tax laws by governments in Canada.

Until early 2005 Precision had an aggressive global growth strategy directed toward the supply of oilfield and industrial services to customers in Canada and internationally. Precision grew through a series of acquisitions of related businesses until mid 2004 and through reinvestment in its core businesses to become one of the largest Canadian based international oilfield and industrial services contractors.

During 2005 Precision underwent a significant shift in its strategic business direction with its decision to realize the value in the international contract drilling, energy services and industrial services segments of its business. This value was realized through the divestiture of three business lines in the third quarter of 2005: Precision Energy Services which was the technology services group providing cased hole and open hole wireline services, drilling and evaluation services and production services; Precision Drilling International which was an international land rig contractor; and CEDA International Corporation ( CEDA ) which provided industrial cleaning, catalyst handling and mechanical services. The dispositions provided shareholders of Precision with proceeds in the form of a special cash payment of \$844 million and almost 26 million shares of Weatherford International Ltd. ( Weatherford ) valued at \$2.0 billion.

After the above dispositions, the continuing business represented Precision's core expertise and marked a return to Precision's business roots in western Canada which date back more than 20 years as a publicly traded company and over 50 years in operational experience.

Over the last three years, significant acquisitions, dispositions and reorganizations consisted of the following:

**Significant Acquisitions**

On August 17, 2006 Precision acquired Terra, a privately owned wastewater treatment business operating at remote worksite locations, for an aggregate purchase price of \$16 million. Terra had 41 treatment units at the time of the acquisition. The service provided by Terra complements those provided by the LRG Catering and Precision Rentals divisions and expanded the diversity of services Precision offered its customers.



### Significant Dispositions

On August 31, 2005 Precision sold its Energy Services and International Contract Drilling divisions to Weatherford for a purchase price consisting of nearly 26 million common shares of Weatherford and \$1.13 billion cash pursuant to a stock purchase agreement dated June 6, 2005 between Precision and Weatherford (the Weatherford Sale Agreement). The Energy Services division of Precision consisted of three main business segments: wireline logging services; drilling and evaluation services; and production services. Wireline services included open hole logging, cased hole logging and completion and slick line services. Drilling and evaluation services included measurement-while-drilling, logging-while-drilling, directional drilling and rotary steerable services. Production services included well testing and controlled pressure drilling (which included under balanced drilling services). Precision's International Contract Drilling division was comprised of 48 land drilling rigs operating in Kuwait, Saudi Arabia, Oman, Iran, Egypt, India, Mexico and Venezuela.

On September 13, 2005 Precision sold 100% of the shares of CEDA to an investment entity of the Ontario Municipal Employees Retirement System for approximately \$274 million pursuant to an agreement dated September 13, 2005 between Precision and 1191678 Alberta Inc. (the CEDA Sale Agreement). CEDA was a leading provider of industrial maintenance, turnaround services and other specialized services to various production industries in Canada and the United States. Its main areas of operation included industrial cleaning, catalyst handling and mechanical services usually carried out in large facilities operating in the oil and natural gas, petrochemical and pulp and paper industries.

### Significant Reorganizations

On July 31, 2005 Precision Limited Partnership (which carried on Precision's Canadian contract drilling, service rig and snubbing businesses) completed a re-organization whereby substantially all of the assets of the Precision Drilling and Precision Well Servicing divisions of Precision Limited Partnership were transferred to its wholly-owned subsidiary Precision Drilling Ltd. Precision Limited Partnership also transferred its ownership in LRG Catering Ltd. (Precision's camp and catering business) to Precision Drilling Ltd.

On August 25, 2005 Precision Limited Partnership was dissolved, with its partners Precision Diversified Services Ltd. and Precision being allocated their pro rata share of the net assets of Precision Limited Partnership. Precision Diversified Services Ltd. and Precision transferred those net assets to Live Well Service Ltd.

On October 31, 2005 the shareholders of Precision approved the Plan of Arrangement which became effective on November 7, 2005. The Plan of Arrangement resulted in the following:

the former holders of common shares of Precision received, for each share of Precision they owned, at their option, either a Trust Unit or an Exchangeable Unit, in addition to 0.2089 of a Weatherford share and a special cash payment of \$6.83;

Precision amalgamated with the following wholly-owned subsidiaries: Columbia Oilfield Supply Ltd., Rostel Industries Ltd., Precision Diversified Services Ltd., LRG Catering Ltd., Precision Rentals Ltd., 1181177 Alberta Ltd. and Precision Drilling Ltd., to form Precision Drilling Corporation;

1195309 Alberta ULC, a wholly-owned subsidiary of PDLP, became indebted to PDLP;

all of the issued and outstanding options issued pursuant to Precision's various stock option plans were converted into New Options (as defined in the Plan of Arrangement) which became fully vested and were exercisable up to and including November 22, 2005; and

all of the PDLP A Units were issued to the Trust, representing 99.12% of the total number of limited partnership units of PDLP (the Limited Partnership Units) outstanding, 0.88% of the Limited Partnership Units represented by Exchangeable Units were issued to certain former shareholders of Precision, and 1194312 Alberta Ltd. (the General Partner) became a nominal interest holder in PDLP.

On November 23, 2005 Precision amalgamated with 1195309 Alberta ULC to form Precision Drilling Corporation.

On January 1, 2006 Precision amalgamated with Live Well Service Ltd.

On August 17, 2006 Terra transferred substantially all of its net assets to Terra Water Systems Limited Partnership ( Terra Water ).

On January 1, 2007 Precision amalgamated with Terra.

### **Cash Flow**

The Trust holds PDLP A Units and PDLP holds a promissory note owing by Precision (the Promissory Note ). Cash generated from the operations of Precision flow to PDLP in settlement of principal and interest owing on the Promissory Note. The cash payable to PDLP is then available to be paid to the limited partners of PDLP which includes holders of Exchangeable Units and indirectly, the holders of Trust Units.

### **Cash Distributions on Trust Units**

The Trust's Board of Trustees adopted a policy of making regular cash distributions on or about the 15<sup>th</sup> day following the end of each calendar month to Trust Unitholders of record on the last business day of each such calendar month or such other date as determined from time to time by the Board of Trustees. In addition, the Declaration of Trust provides that, an amount equal to net income of the Trust not already paid to holders of Trust Units in the year will become payable on December 31 of each year, such that the Trust will not be liable for ordinary income taxes for such year. Please refer to *Certain Canadian Federal Income Tax Considerations Taxation of the Trust* on pages 46 and 47 of the 2005 Special Meeting Information Circular which are incorporated by reference into this Annual Information Form.

The Board of Trustees reviews the Trust's distribution policy from time to time. The actual amount distributed is dependent on various economic factors and distributions are declared at the discretion of the Board of Trustees. The actual cash flow available for distribution to Unitholders is a function of numerous factors, including the Trust's, PDLP's and Precision's financial performance; debt covenants and obligations; working capital requirements; upgrade and expansion capital expenditure requirements for the purchase of property, plant and equipment; and number of Trust Units and Exchangeable Units issued and outstanding.

As a result of the aforementioned factors, distributions may be increased, reduced or suspended entirely. The market value of the Trust Units may deteriorate if the Trust decreases or suspends cash distributions in the future. Refer to the heading *Risk Factors* commencing on page 18 hereof.

Under the terms of the Declaration of Trust, the Trust is required to make distributions to holders of Trust Units in amounts at least equal to its taxable income. Distributions may be monthly or special and in cash or in Trust Units ( in-kind ) at the discretion of the Board of Trustees. To the extent that additional cash distributions are paid and capital expenditure or investment programs are not adjusted, debt levels may increase. In the event that a distribution in the form of Trust Units is declared, the terms of the Declaration of Trust require that the outstanding units be consolidated immediately subsequent to the distribution. The number of outstanding Trust Units would remain at the number outstanding immediately prior to the unit distribution and an amount equal to the distribution would be allocated to the holders of Trust Units. For greater clarity, holders of Trust Units do not receive additional Trust Units during an in-kind issuance and consolidation process.

### **Payments on Exchangeable Units**

Holders of Exchangeable Units will be entitled to receive, and PDLP will make, subject to applicable law, on each date on which the Board of Trustees declares a distribution on the Trust Units, a loan in respect of each Exchangeable Unit in an amount in cash for each Exchangeable Unit equal to the distribution declared on each Trust Unit; or in the case of a distribution declared on the Trust Units in securities or property other than cash or Trust

Units, a loan in the amount equal to the value of such type and amount of securities or property which is the same as, or economically equivalent to, the type and amount of property declared as a distribution on each Trust Unit.

Any amount loaned in respect of Exchangeable Units pursuant to these distribution entitlements will not constitute a distribution of profits or other compensation by way of income in respect of such Exchangeable Units, rather, will constitute a non-interest bearing loan of the amount thereof, or in the case of property, a loan in the amount equal to the fair market value thereof as determined in good faith by the board of directors of the General Partner, which loan is repayable on the first day of January of the calendar year next following the date of the loan or such earlier date as may be applicable as more particularly described in paragraph 3.7 of Appendix D of the 2005 Special Meeting Information Circular which is incorporated by reference into this Annual Information Form.

On the date on which the loan is repayable, PDLP will make a distribution in respect of each Exchangeable Unit equal to the amount of the loan outstanding in respect thereof. PDLP will set off and apply the amount of any such distribution payment against the obligation of any holder of Exchangeable Units under any loan outstanding in respect thereof.

In the event that a distribution in the form of Trust Units is declared the outstanding units will be consolidated immediately subsequent to the distribution. The number of outstanding Exchangeable Units would remain at the number outstanding immediately prior to the unit distribution and an amount equal to the distribution would be allocated to the holders of Exchangeable Units. For greater clarity, holders of Exchangeable Units do not receive additional Exchangeable Units during an in-kind issuance and consolidation process.

#### **Distribution Reinvestment Plan**

Effective December 18, 2006 the distribution reinvestment plan (the DRIP), outlined below, was suspended indefinitely by the Board of Trustees. Details of the DRIP are described more fully in the DRIP document available on the Trust's website at [www.precisiondrilling.com](http://www.precisiondrilling.com).

A DRIP was approved by the Board of Trustees on February 14, 2006. The DRIP was implemented on March 31, 2006 and allows certain holders of Trust Units, at their option, to reinvest monthly cash distributions to acquire additional Trust Units at the average market price as defined in the DRIP. Unless otherwise announced by the Trust, Trust Unitholders who are not residents of Canada are not eligible to participate, directly or indirectly, in the DRIP. Exchangeable Unitholders also are not eligible to participate in the DRIP. Generally, no brokerage fees or commissions are payable by participants for the purchase of Trust Units under the DRIP, but holders of Trust Units should make inquiries with their broker, investment dealer or financial institution through which their Trust Units are held as to any policies that may result in any fees or commissions being payable. The Trust reserved the right to amend, terminate or suspend the DRIP at any time provided that such amendment, termination or suspension does not prejudice the interests of holders of Trust Units.

#### **Board of Trustees**

Pursuant to the terms of the Declaration of Trust, the Board of Trustees consists of three members who are responsible for supervising the activities and managing the affairs of the Trust.

The Declaration of Trust provides that, subject to its terms and conditions, the Board of Trustees has full, absolute and exclusive power, control, authority and discretion over the Trust assets and the management of the affairs of the Trust to the same extent as if the Board of Trustees were the sole and absolute legal and beneficial owners of the Trust assets.

Any one or more of the Board of Trustees may resign upon 30 days written notice to the Trust and may be removed by an ordinary resolution and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the affirmative vote of a quorum of the Board of Trustees.

Trustees are elected at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting. A quorum of the Board of Trustees is a majority of the Trustees then holding office. A

majority of the Trustees may fill a vacancy in the Board of Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Board of Trustees will promptly call a special meeting of the Unitholders to fill the vacancy. If the Board of Trustees fails to call that meeting or if there are no Trustees then in office, any Unitholder may call the meeting. Except as otherwise provided in the Declaration of Trust, the Board of Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

#### **Administration Agreement**

The Trust and Precision are parties to an administration agreement entered into on November 7, 2005 (the Administration Agreement ). Under the terms of the Administration Agreement, Precision provides administrative and support services to the Trust including, without limitation, those necessary to:

- ensure compliance by the Trust with continuous disclosure obligations under applicable securities legislation;
- provide investor relations services;
- provide or cause to be provided to Trust Unitholders all information to which Trust Unitholders are entitled under the Declaration of Trust, including relevant information with respect to financial reporting and income taxes;
- call and hold meetings of Trust Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings;
- assist the Board of Trustees in calculating distributions to Trust Unitholders;
- ensure compliance with the Trust's limitations on non-resident ownership, if applicable; and
- generally provide all other services as may be necessary or as may be requested by the Board of Trustees.

#### **DESCRIPTION OF THE BUSINESS OF PRECISION**

##### **GENERAL**

Precision's continuing operations are carried out in two segments consisting of Contract Drilling Services and Completion and Production Services. The Contract Drilling Services segment includes land drilling services, camp and catering services, procurement and distribution of oilfield supplies and the manufacture and refurbishment of drilling and service rig equipment. The Completion and Production Services segment includes service rig well completion and workover services, snubbing services, wastewater treatment services and the rental of oilfield surface equipment, tubulars and well control equipment and wellsite accommodations. As at December 31, 2007 Precision had approximately 4,600 employees.

Precision's revenue by business segment from continuing operations is illustrated in the following table:  
(in thousands CDN\$)

<b>Years ended December 31,</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Contract Drilling Services	\$ 694,340	\$ 1,009,821	\$ 916,221
Completion and Production Services	327,471	441,017	369,667
Inter-segment eliminations	(12,610)	(13,254)	(16,709)
<b>Total Revenue</b>	<b>\$ 1,009,201</b>	<b>\$ 1,437,584</b>	<b>\$ 1,269,179</b>

In Canada, the economics of oilfield services align with global and regional fundamentals. Important regional drivers include the underlying hydrocarbon make-up of the Western Canada Sedimentary Basin (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 70% of new well completions in 2007 targeted natural gas. In general, drilling rig activity in the WCSB is split between four provinces with approximately 71% in Alberta, 14% in Saskatchewan, 14% in British Columbia and 1% in Manitoba. Areas in Canada's north hold significant promise for the expansion of oil and natural gas services but remain as largely untapped frontier opportunities pending government and community support to further infrastructure project economics. The Canadian oilfield service industry dates to the 1940s and has given Canada the means to develop its reserves to meet domestic consumption and to provide export capacity, primarily to the United States. Today Canada is the world's seventh largest producer of oil and third largest producer of natural gas. Currently, over half of Canada's oil and natural gas production is exported to the United States.

The hydrocarbon structures of the WCSB are diverse and 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 complemented by more costly and challenging unconventional reservoirs associated with oil sands, heavy oil, natural gas in coal and in shale and in deeper, low permeability formations. The oil sands deposits in northern Alberta are a world-scale resource with an estimated 175 billion barrels of recoverable reserves which are second only to Saudi Arabia in terms of reserves held by an individual country.

The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the thawing of ground frost typically renders secondary roads incapable of supporting the weight of heavy equipment until such time as they have thoroughly dried. The duration of spring break-up has a direct impact on Precision's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter when the ground is frozen enough to support the transportation of heavy equipment. The timing of winter freeze-up and spring break-up affects Precision's ability to move equipment in and out of these areas. Wet weather can further defer commencement of drilling or servicing operations on any given day or well location.

Precision currently derives the majority of its revenue from the Canadian market. In 2006 an expansion into the United States drilling market was initiated and continued to become a larger part of Precision's operations in 2007. In fiscal 2007 one customer accounted for approximately 10% of Precision's revenue.

Providing oilfield services incorporates three main elements: people, technology and equipment. Attracting, training and retaining qualified employees is a challenge for oilfield services providers. As 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 risk assumed by oilfield service providers relates to the volatility in activity levels which affect utilization rates, investment in people, technology and equipment and cost controls.

The economics of oilfield service providers are largely driven by the price of crude oil and natural gas realized by its customers. Crude oil and natural gas prices have historically been volatile. The upward trend in commodity prices since 2002 through 2007 peaked for natural gas in December 2005 and for oil in November 2007. The price for gas has retreated from that time but remains at reasonably high levels when compared to pricing trends over the past five years. The price for oil continues to see new highs with peaks in January and February of 2008.

### **CONTRACT DRILLING SERVICES**

Precision's Contract Drilling Services segment is comprised of the following divisions and affiliates:

Precision Drilling 232 land drilling rigs in Canada;

Precision Drilling Oilfield Services 12 land drilling rigs in the United States;

A Precision affiliate one land drilling rig in Latin America;

LRG Catering ( LRG ) 102 drilling and base camps, with food catering in Canada and the United States;

Rostel Industries ( Rostel ) engineering, machining, fabrication, component manufacturing and repair services for drilling and service rigs primarily for Precision s operations; and Columbia Oilfield Supply ( Columbia ) centralized procurement, inventory and distribution of consumable supplies primarily for Precision s operations.

### **Precision Drilling**

The Precision Drilling division owns and operates the largest fleet of land drilling rigs in Canada with 232 actively marketed drilling rigs located throughout the WCSB, accounting for approximately 26% of the industry s fleet of 898 drilling rigs in Canada at December 31, 2007.

Oil and natural gas well drilling contracts are carried out on a daywork, metreage or turnkey basis. Under daywork contracts, Precision charges the customer a fixed rate per day regardless of the number of days needed to drill the well. In addition, daywork contracts usually provide for a reduced day rate (or a lump sum amount) for mobilization of the rig to the well location and for both assembly and dismantling of the rig. Under daywork contracts, Precision ordinarily bears no part of the costs arising from downhole risks (such as time delays for various reasons, including a stuck or broken drill string or blowouts). Other contracts could provide for payment on a metreage basis whereby Precision would be paid a fixed charge for each metre drilled regardless of the time required or the problems encountered in drilling the well. Some contracts are carried out on a metreage basis to a specified depth and on a daywork basis thereafter. Turnkey contracts contemplate the drilling of a well for a fixed price. Compared to daywork contracts, metreage and turnkey contracts involve a higher degree of risk to Precision and, accordingly, normally provide greater profit or loss potential. Over the last five years, Precision s contracts have been carried out almost exclusively on a daywork basis.

Contracts with customers vary in duration from a day or two on shallow single well applications to multiple year, multiple well drilling programs. Precision s newly built drilling rigs tend to have term contracts prior to the rig being completed and in many cases have a three to five year capital payout contract in place at the time construction commences.

Precision s drilling rigs have varying configurations and capabilities which enable Precision to provide services in virtually all areas of drilling activity in the WCSB. Precision s rigs have drilling depth capacities of up to 6,700 metres. Conventional rigs are configured to handle either one, two or three joints of standard length drill pipe at one time and are categorized as singles, doubles or triples based on this capability. As well, Precision has coiled tubing drilling rigs which utilize a single strand of pipe coiled around a reel. As a coil tubing drilling rig drills, the tubing is unwound and as the tubing is rewound onto the reel the bit returns to surface.

Single, double and coiled tubing rigs are generally used in the shallow drilling market, while triple rigs, which have greater hoisting capacity, are used in deeper exploration and development drilling, usually carried out in the foothills and Rocky Mountain regions of Canada and the United States. Precision s triple rig fleet includes specialized rigs for deep sour natural gas well drilling. Virtually all Precision drilling rigs are capable of operating under all climatic conditions.

Rounding out Precision s fleet are Super Single rigs, the majority of which have slant capability. The Super Single rigs are manufactured by Precision and are equipped with top drive drilling systems, extended length drill pipe and an automated pipe handling system. Slant drilling involves tilting a rig mast from vertical and is primarily used to drill multiple directional wells from one location. Super Single rigs allow for drilling to be carried out on a more cost effective basis than using conventional drilling techniques. Drilling multiple wells from one location, for instance, improves the economics of developing shallow hydrocarbon reserves. Additionally, the same technique can allow for the exploitation of reserves located in environmentally sensitive areas or inaccessible locations and can reduce or eliminate the cost of building access roads for multiple drilling locations. Precision believes the Super Single rig category will continue to offer significant revenue growth. In addition to conventional wells, Precision s Super Single rigs have been adapted to meet a variety of operational needs such as heavy oil, natural gas in coal and in shale, tight gas, oil sands production and steam assisted gravity drainage projects.

The Super Single Light is a scaled-down version of the Super Single without slant drilling capabilities. These rigs have been built for drilling shallow wells up to 1,200 metres in depth. Using extended length drill pipe, the design incorporates proven technology and reliability in a light weight, easily moved load configuration. The Super Single Light competes with coiled tubing rigs and offers greater drilling capability over a wider range of well configurations than coiled tubing rigs.

Rigs built by Precision are designed for greater safety and operating efficiency to deliver well cost savings to customers. High performance drilling rigs combine high mobility, automation, advanced control systems, minimal environmental impact, and highly trained crews. Over the past 12 years Precision has been developing the Super Series drilling rigs and has built 35 Super Single , seven Super Single Light and eight Super Triple rigs.

To facilitate customer requirements Precision also owns 17 mobile top drives and 41 rigs with integrated top drives. A top drive is used to rotate the drill string and provides greater efficiency in the drilling of a well compared to the traditional rotary table and kelly. A top drive is suspended in the mast of the drilling rig and is powered by a hydraulic or electric motor.

Precision continually seeks to upgrade and modify its rig fleet to maximize performance. Precision works hard to remain abreast of, and in many cases, lead advances in specialized drilling techniques and technology in order to maximize rig efficiency and minimize environmental impact. A total of 49 of Precision's drilling rigs are diesel-electric powered, with the remaining rigs mechanically powered. Diesel-electric powered rigs provide more precise control of drilling components and are considered more power efficient than mechanical rigs and are well suited for horizontal and directional drilling. Eight of the diesel electric rigs are AC power driven which provides for increased scalability, more efficient power conversion, smaller component size and weight, and a broader performance range. Many of Precision's mechanically powered rigs are also capable of horizontal and directional drilling by reconfiguring the rigs with additional equipment which Precision has readily available.

The following table lists the drilling depth capabilities of Precision's drilling rigs and the total Canadian land drilling industry's rigs in the WCSB as at December 31, 2007:

Type of Drilling Rig	Maximum Depth Rating	Precision Fleet			Industry Fleet <sup>(1)</sup>		
		Number of Rigs	% of Total	Market Share % <sup>(3)</sup>	Number of Rigs	% of Total	Change <sup>(4)</sup>
Single	1,200 m	14	6	8	165	18	20
Super Single <sup>(2)</sup>	3,000 m	33	14	89	37	4	4
Double	3,000 m	87	38	22	393	44	29
Light triple	3,600 m	40	17	34	116	13	(1)
Super Triple <sup>(5)</sup>	4,000 m	8	3	100	8	1	3
Heavy triple	6,700 m	39	17	36	109	12	(4)

Coiled tubing	1,500 m	11	5	16	70	8	5
<b>Total</b>		<b>232</b>	<b>100%</b>	<b>26%</b>	<b>898</b>	<b>100%</b>	<b>56</b>

**NOTES:**

- (1) Source: Daily Oil Bulletin Rig Locator Report as of January 2008. Precision has allocated the industry rig fleet by rig type and removed its 11 decommissioned rigs.
- (2) Super Single excludes single rigs that do not have automated pipe handling, a self contained top drive, or run extended length drill pipe/casing.
- (3) Market share means Precision's rigs as a percent of the industry rigs.
- (4) Change in number of industry rigs as compared to the prior year.
- (5) Super Triple includes features such as extended length drill pipe, AC power, iron roughneck, mobility without cranes, top drive and an advanced control system.



There was a net addition of 56 drilling rigs added to the Canadian industry fleet during 2007, a 7% increase over 2006. In 2006 customer demand to drill conventional oil and natural gas wells, in combination with improving commercialization of natural gas in coal and in shale, oil sands, heavy oil and deeper natural gas formations had

driven demand for rigs to record levels but the slowdown in drilling activity commencing in the second half of 2006 reduced 2007 rig utilization rates.

The following table lists the drilling rig utilization rates and certain other drilling statistics for Precision compared to the total land drilling industry in the WCSB for the years indicated:

	Utilization Rates (%)		Metres Drilled (000s)			Wells Drilled <sup>(1)</sup>		
	Precision	Industry <sup>(2)</sup>	Precision	Industry <sup>(2)</sup>	% of Industry	Precision	Industry <sup>(2)</sup>	% of Industry
2007	34.5	37.7	5,813	22,189	26.2	4,718	18,342	25.7
2006	52.1	55.1	7,810	27,373	28.5	6,180	22,575	27.4
2005	56.1	59.6	8,901	28,143	31.6	7,766	24,351	31.9
2004	50.3	52.9	8,021	23,526	34.1	7,525	21,793	34.5
2003	52.0	53.1	8,604	21,802	39.5	8,451	20,694	40.8

**NOTES:**

(1) The number of wells drilled is reported on a rig release basis, compiled by Precision.

(2) Industry numbers exclude drilling rigs not registered with the Canadian Association of Oilwell Drilling Contractors ( CAODC ) and non-reporting CAODC member contractors.

Since 1997 Precision has consistently been the most active land drilling contractor in Canada in terms of operating days, wells and metres drilled, and presently has a market share of 26% in Canada. During 2007 Precision achieved a utilization rate of 34% for its Canadian drilling rigs compared to the average industry utilization rate in Canada of 38%. Precision strives to obtain high utilization of its fleet and optimal profitability given competitive pricing and Canada's seasonal reduction in drilling demand during the second and third quarters.

In 2007 Precision drilled 4,718 exploration and development wells, accounting for 26% of industry wells drilled in western Canada.

Precision's fleet can drill virtually all types of on-shore conventional and unconventional oil and gas wells in North America. It is particularly adept in developing unconventional resources such as oil sands, natural gas in coal and in shale or tight gas. The increase in drilling-intensive unconventional resource plays creates opportunities for technically innovative and operationally efficient drillers like Precision.

The drilling industry in Canada requires specialized skill and knowledge which, due to increased utilization levels over the past decade, has been in short supply. A drilling rig crew is comprised of a rig manager, driller, derrickman, motorman, floorman and leaseman. The traditional rig crewing configuration is three crews working rotating shifts, two weeks in and one week out, allowing the rig to keep working with one crew off. The floor and lease positions are entry level, with the motorman, derrickman and driller positions being more advanced. Each position has certain prerequisite qualifications and training. Well control, H<sub>2</sub>S, first aid, fall protection, work place hazardous materials and various aspects of Precision's health, safety and environment management systems are all key training components.

The provision of an experienced competent crew is a competitive strength, highly valued by Precision's customers. In order to continually recruit rig employees, Precision has a centralized personnel department and orientation program. In 2007 there were approximately 594 candidates given pre-employment rig orientation training. Precision is also active as a member of the CAODC in implementing the Rig Technician journeyman program, a designated trade certification for drilling rig workers in Alberta, the first jurisdiction to recognize the specialized skill and knowledge that a driller must possess.

The shortage of labour in the oilfield service industry in recent years continues with human resource issues expected to remain a priority for the industry for the foreseeable future. For Precision, emphasis is placed on retention of experienced employees in derrickman, driller and rig manager positions. A shortage occurs in high activity periods when most of the rig fleet is working. The service industry loses experienced employees to

customers, competitors, other oilfield businesses and to other industries due to the cyclical nature of the work and the resulting uncertainty of continuing employment. During 2007 Precision focused on the retention of existing employees through initiatives that provide a safe and productive work environment, opportunity for advancement and added wage security through programs such as our Designated Driller Program.

Precision's ability to work an entire fleet of rigs, given Canadian seasonality, arises from its ability to retain experienced employees in low activity periods, orientate new employees and effectively administer personnel and payroll functions.

#### **Precision Drilling Oilfield Services, Inc.**

Precision Drilling Oilfield Services, Inc. began current operations in the United States in June 2006 with one rig operating in Texas and grew to a fleet of 12 rigs by the end of 2007 with seven rigs in Texas, four in Colorado, and one in Wyoming, all under term contracts. The 11 rig increase in 2007 included seven new Super Single™ rigs of which five are diesel electric AC driven and two are mechanical, and four diesel-electric triple rigs all deployed out of Canada. The combined utilization including move days was 99% as the fleet experienced minimal downtime. The United States market also does not typically experience the same seasonality as in Canada therefore utilization is expected to be much higher. United States operations in the Rocky Mountain region are based in Colorado, and in the South Central region are based in Texas. In early 2008 Precision mobilized one diesel-electric triple rig to New York and one diesel electric AC driven Super Triple rig to Colorado.

#### **LRG Catering**

LRG provides food and accommodation to personnel working at the wellsite, typically in remote locations in western Canada. LRG has 99 drilling camps and base camps representing approximately 12% of the camp and catering business in western Canada and three drilling camps in the United States. LRG's mobile camps include five or six units and can accommodate 20 to 25 crew members and individual dormitory units that can accommodate up to 45 crew members. It can also provide food service for all of the field workers on a location. LRG also has the ability to configure several of its camps and dormitories on a single site to create a base camp for major projects which can house as many as 200 workers and provide up to 1,000 meals a day. As the oil and gas industry in western Canada moves to more remote locations in search of new reserves there is increasing demand for crews to stay near the worksite throughout the duration of a project. LRG serves Precision and other companies in the upstream oil and gas sector and periodically secures opportunities to serve other industries that operate in remote locations.

#### **Rostel Industries**

Rostel Industries manufactures and refurbishes custom drilling rig and service rig components. This uniquely positions Precision with in-house rig manufacturing capability. Approximately 70% of Rostel's activities support Precision business units. The ability to repair or provide new components for either drilling or service rigs in-house improves the efficiency and reliability of Precision's fleet. 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 includes an in-house engineering group as well as an equipment sales group that specializes in the distribution of mud pumps and other imported products. Rostel designs and builds a significant portion of the components for Precision's Super Single™ drilling rigs and is developing products that can be applied to new rigs and retro-fitted to improve the versatility of many of Precision's existing rigs. Strategically, Rostel gives Precision the ability to control cost, quality and production schedules that meet customer requirements.

**Columbia Oilfield Supply**

Columbia Oilfield Supply is a general supply store that procures, packages and distributes large volumes of consumable oilfield supplies for the contract drilling and well servicing industry. Approximately 90% of Columbia's activities support Precision operations and it plays a key role in supply chain management for Precision. Columbia's key strengths, which contribute to Precision's competitiveness, are in inventory management, demand anticipation and distribution. Precision and its customers also benefit from Columbia's purchasing power, standardized product selection, streamlined business processes and coordinated distribution. Strategically, Columbia gives Precision the ability to set its own service level priorities and to standardize products used on its equipment. Through Columbia, Precision has direct control over supply distribution to field destinations which enhances its reliability in the execution of its operations.

**COMPLETION AND PRODUCTION SERVICES**

Precision's Completion and Production Services segment is comprised of the following businesses in Canada:

Precision Well Servicing 223 well completion and workover service rigs;

Live Well Service 27 snubbing units;

Precision Rentals about 13,000 rental items including well control equipment, surface equipment, specialty tubulars and wellsite accommodation units; and

Terra Water 63 wastewater treatment units.

**Precision Well Servicing**

The Precision Well Servicing division is Canada's largest service rig contractor, providing customers with a complete range of oil and natural gas well services completion, workover, abandonment, well maintenance, high pressure and critical sour gas 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. The configuration of Precision's Well Servicing fleet as at December 31, 2007 is illustrated in the following table:

<b>Type of Service Rig</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Singles:			
Mobile single	5	12	17
Freestanding mobile	94	92	88
Doubles:			
Mobile	43	44	44
Freestanding mobile	9	9	8
Skid	55	65	65
Slants:			
Freestanding	17	15	15
<b>Total</b>	<b>223</b>	<b>237</b>	<b>237</b>

At the end of 2007 Precision Well Servicing had an industry market share of 20% with a rig fleet of 223 rigs after decommissioning 16 rigs, while the average registered CAODC industry fleet was approximately 1,100 service rigs in western Canada. Precision Well Servicing continued to upgrade its fleet through initiatives that included freestanding conversions and new transporters along with engines and combination trailers. As at December 31, 2007 Precision Well Servicing had 120 freestanding service rigs representing 54% of its service rig fleet. A freestanding rig is more efficient to set up, minimizes surface disturbance and, as there is no need for

anchors, reduces the possibility of striking underground utilities. 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 so the rig does not need to be moved as often. They also include additional equipment such as circulating pumps, tanks, blowout preventers and tools.

Well servicing requires its own unique skill set and in addition to physical work, harsh weather and other factors crews must deal with the potential dangers and safety concerns of working with pressurized wellbores. A typical service rig crew has four members: driller, derrickman, and two floormen, in addition to the rig manager. Servicing wells often means coordinating activities of several service companies so work normally takes place in daylight hours. Jobs are typically shorter in well servicing than contract drilling so the ability of a service rig to move quickly from one site to another is critical. Precision Well Servicing typically charges its customers an hourly rate for its services based on a number of considerations including market demand in the region, the type of rig and complement of equipment required.

The Precision Well Servicing rig fleet is deployed throughout the WCSB to improve efficiency and reduce travel time to wellsites. Well servicing operations have two distinct functions completions and workovers. Service rigs are typically used during the completion phase of a well, instead of larger, more expensive drilling rigs, in order to reduce the cost of completing the well. The demand for well completion services is related to the level of drilling activity in a region whereas the demand for production or workover services is based upon the total number of active wells, their age and their producing characteristics. Consequently, demand for completion services is generally more volatile than workover services. Completions accounted for about 32% of total activity for Precision Well Servicing in 2007 as compared to 38% in 2006. Workovers accounted for 68% in 2007 compared to 62% in 2006.

After a well is initially drilled, the well operator contracts a service provider such as Precision Well Servicing to supply the crew and equipment to complete the well. Completion services prepare a newly drilled well for initial production and may involve cleaning out the wellbore and the installation of production tubing, downhole equipment and wellheads. Service rigs work jointly with other services to perforate the wellbore to open the producing zones and stimulate the producing zones to improve productivity. The well completion process may take one day to many weeks to complete and Precision Well Servicing provides a service rig to assist during most or all of this process.

A typical gas well in western Canada is likely to require one or more workovers during its operating life compared with four or five workovers for some conventional oil wells. Wells for some heavy oil and bitumen production could require many workovers during their lifecycle. Workovers take place over the producing life of the well and involve a variety of activities to restore or enhance production. Well maintenance services are often required to ensure continuous and efficient operation of producing wells. These services include routine mechanical repairs such as repairing failed wellbore pumping equipment or replacing damaged rods and tubing.

Workover services are generally provided according to preventative maintenance schedules or on a call-out basis when a well needs major repairs or modifications. This can involve operations similar to those conducted during the initial completion of a well. Workovers may also involve restoring or enhancing production in an existing producing zone, changing to a new producing zone, converting the well for use as an injection well for enhanced recovery operations or plugging and abandoning the well. Workover services also include major subsurface repairs such as casing repair or replacement, recovery of tubing and removal of foreign objects from the wellbore, such as lost tools. Workover activities may require a few days to several weeks to complete. During this time Precision Well Servicing may work alongside other oilfield service providers on the well location while other services are being directed by its customer.

The number of wells drilled in Canada each year has doubled in this decade compared with the 1990 s with a particular increase in natural gas and heavy oil drilling. With about 200,000 producing wells currently in western Canada as potential candidates for workovers and about 14,000 to 20,000 new wells drilled each year that must be completed and maintained, well servicing has significant growth potential for Precision.

### **Live Well Service**

Live Well Service markets 22 portable hydraulic rig-assist snubbing units and five self-contained units in western Canada for a market share of about 25%. Snubbing units are equipped with specialized pressure control devices which allow tubing to be pushed (snubbed) into and pulled out of a wellbore while a well is under pressure and production has been suspended.

Traditional well servicing operations require the pressure in a well to be neutralized or killed, prior to performing such operations so they can be conducted safely. Some reservoirs can be damaged if a well is killed prior to workover operations, as the fluids used in the process may cause the flow characteristics of the reservoir to be impaired. Consequently, snubbing units have been developed to perform certain workover and completion activities without killing the well.

There are essentially two types of snubbing units – rig-assist and self-contained. Rig-assist units work with a service rig to complete the snubbing activity for a well. Self-contained units do not require a service rig on site and are capable of snubbing and many other services traditionally completed by a service rig.

Snubbing is primarily used to enhance natural gas production and as more gas wells are drilled in western Canada each year, producers are increasingly aware of the advantages of snubbing.

### **Precision Rentals**

Precision Rentals is a provider of oilfield rental equipment with five operating centres and 13 stocking points located throughout western Canada as well as a central technical support centre in Leduc, Alberta. Most exploration and production companies do not own the specialty equipment used in oil and gas operations and rely on suppliers such as Precision Rentals for access to large inventories of drilling, completion and production equipment.

Precision Rentals' inventory of equipment is marketed through three product categories: surface equipment; tubulars and well control equipment; and wellsite accommodation units.

Surface equipment includes 2,300 drilling and production tanks and other equipment primarily associated with fluid handling. Tubular equipment includes about 10,000 joints of specialty-sized drill pipe and collars. Well-control equipment includes handling tools and equipment such as blowout preventers and diverter systems. Wellsite accommodations comprise 290 fully equipped units that provide office and lodging for oil and gas field personnel.

Precision Rentals also supplies the patented Vapour Tight Oil Battery , which allows for single well production of oil with hydrogen sulphide (H<sub>2</sub>S) content through the use of a 500 barrel NACE (National Association of Corrosion Engineers) certified vessel with gas metering and flaring capabilities.

### **Terra Water**

Terra Water's principal role is the provision of portable onsite wastewater handling, treatment, and disposal expertise within the remote worksite environment. Terra Water's equipment focuses on reducing environmental impacts from wastewater generated on site.

The wastewater treatment units are designed and manufactured in-house and are built to industry leading standards. Terra Water provides regular servicing for all of its equipment and tests treated effluent samples to ensure the units are producing high quality treated effluent with no detectible odours. Terra Water has 63 portable treatment units comprising approximately 10% of the industry within the remote work site market in western Canada.

Terra Water's large units can accommodate camp sites of up to 50 people and several units can be combined to serve large-scale base camp configurations. To meet specific requests from clients, Terra Water has developed a smaller model which is better suited to lower volume requirements of remote locations that accommodate less than 15 people.



## RISK FACTORS

### THE TRUST

An investment in the Trust Units and Exchangeable Units involves a number of risks including those set forth below.

#### **The Trust is Dependent on Precision for All Cash Available for Distributions**

The Trust is dependent on the operations and assets of Precision through its interest in PDLP, which in turn owns 100% of the shares of Precision and the Promissory Note. Distributions to the holders of Trust Units and Exchangeable Units are dependent on the ability of Precision to make principal and interest payments on the Promissory Note, dividends and return of capital payments. The actual amount of cash available for distribution is dependent upon numerous factors relating to the business of Precision including profitability, changes in revenue, fluctuations in working capital, capital expenditure levels, applicable laws, compliance with contracts, contractual restrictions contained in the instruments governing its indebtedness, the impact of interest rates, the growth of the general economy, the price of crude oil and natural gas, changes to tax laws, weather, future capital requirements and the number of Trust Units and Exchangeable Units issued and outstanding and potential tax liabilities resulting from any successful reassessments of prior taxation years by taxation authorities.

Any reduction in the amount of cash available for distribution, or actually distributed, by Precision will reduce or suspend entirely the amount of cash available for distributions to the holders of Trust Units and Exchangeable Units. The market value of the Trust Units may deteriorate if the Trust is unable to meet distribution expectations in the future, and such deterioration may be material.

#### **Variability of Distributions**

The actual cash flow available for distribution to Unitholders is a function of numerous factors including the Trust's, PDLP's and Precision's financial performance; debt covenants and obligations; working capital requirements; future upgrade capital expenditures and future expansion capital expenditure requirements for the purchase of property, plant and equipment; tax obligations; the impact of interest rates; the growth of the general economy; the price of crude oil and natural gas; weather; and number of Trust Units and Exchangeable Units issued and outstanding. Distributions may be increased, reduced or suspended entirely depending on Precision's operations and the performance of its assets. The market value of the Trust Units may deteriorate if the Trust is unable to meet distribution expectations in the future, and that deterioration may be material.

#### **Changes in Legislation**

There can be no assurance that income tax laws, such as the status of mutual fund trusts, or the taxation of mutual fund trusts, will not be changed in a manner which adversely affects holders of Trust Units.

Environmental and applicable operating legislation may be changed in a manner which adversely affects holders of Trust Units.

#### **Taxation of the Trust**

There can be no assurances that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Trust Units. For example, if the Trust ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading *Certain Canadian Federal Income Tax Considerations Taxation of Trust Unitholders* on pages 47 and 48 of the 2005 Special Meeting Information Circular which are incorporated by reference into this Annual Information Form, would be materially and adversely different in certain respects.

Moreover, if the Trust were to cease to qualify as a mutual fund trust, the Trust Units held by Trust Unitholders that are non-residents of Canada for purposes of the Tax Act (non-residents) would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a

disposition of Trust Units held by them unless they were exempt under an income tax convention, and non-resident holders would be subject to certain notification and withholding requirements on a disposition of their Trust Units. In addition, the Trust would be taxed on certain types of income distributed to Trust Unitholders (apart from under the specified investment flow-through (SIFT ) legislation discussed below). Payment of this tax may have adverse consequences for some Trust Unitholders, particularly Trust Unitholders that are non-residents and residents of Canada that are otherwise exempt from Canadian income tax.

Legislation to implement proposals originally announced on October 31, 2006 relating to the taxation of certain publicly-traded trusts and their unitholders under the Tax Act has received royal assent. This legislation applies to trusts that are resident in Canada for purposes of the Tax Act, that hold one or more non-portfolio properties , and the units of which are listed on a stock exchange or other public market (a SIFT trust ). A SIFT trust effectively is subject to tax on its income from non-portfolio properties and taxable capital gains from dispositions of non-portfolio properties paid, or made payable, to unitholders at a rate comparable to the combined federal and provincial corporate income tax rate. Distributions of such income to unitholders should be treated as eligible dividends paid by a taxable Canadian corporation.

In general terms, a trust that existed on October 31, 2006 and to which the SIFT trust legislation otherwise would apply, should not be a SIFT trust until the earlier of January 1, 2011 or the first day after December 15, 2006 that the trust exceeds normal growth determined by reference to guidelines issued on December 15, 2006 by the Minister of Finance (Canada) (the Guidelines ). The Guidelines provide that a trust should not be considered to exceed normal growth if the trust does not issue new equity (including convertible debentures or other equity substitutes) that exceeds the greater of \$50 million per year or certain specified safe harbour amounts based on the market capitalization of the trust on October 31, 2006.

Provided that the Trust does not issue new equity in an amount greater than the safe-harbour determined by the market capitalization of the Trust on October 31, 2006 the Trust should not be considered to exceed normal growth and should not be a SIFT trust until January 1, 2011. However, no assurances can be provided that the Trust will not become a SIFT trust prior to January 1, 2011.

There can be no assurance that the Trust will be able to reorganize its legal and tax structure to substantially mitigate the expected impact of the SIFT legislation. On December 20, 2007 the Minister of Finance announced that the federal government remains committed to ensuring that a SIFT trust may convert to a taxable Canadian corporation without undue tax consequences, but as of yet, no draft legislation has been released to specifically facilitate such a conversion.

Currently, under a disqualification rule contained in the Tax Act, a trust will not be considered to be a mutual fund trust if it is established or is maintained primarily for the benefit of non-residents of Canada for the purposes of the Tax Act, unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. In an effort to allow the Trust to assert that the foregoing disqualification rule is inapplicable on the basis that the Trust is not now and has never been established or maintained primarily for the benefit of non-residents of Canada, the Declaration of Trust restricts and provides mechanisms to limit the number of Trust Units held by non-residents of Canada and non-Canadian partnerships. Moreover, as a second reason to allow the Trust to assert that the foregoing disqualification rule does not apply to the Trust, the assets of the Trust have been structured to allow the Trust to assert that all or substantially all of its property is property other than Taxable Canadian property as defined in the Tax Act.

On September 16, 2004 draft amendments to these rules were introduced providing that a trust will lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-residents of Canada or partnerships that are not Canadian partnerships (as defined in the Tax Act) is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is certain types of taxable Canadian property or certain other types of property. These draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status. No further legislative action has been taken in respect of these draft amendments and certain of the concerns which such amendments sought to address were included in the SIFT trust Legislation.

Further, the Declaration of Trust restricts and provides mechanisms to limit the number of Trust Units held by non-residents of Canada and non-Canadian partnerships such that the Trust expects that the existing imposed

non-resident ownership limitations set out in the Tax Act, discussed above, will be satisfied. In an effort to support the assertion that the Trust qualifies as a mutual fund trust under the Tax Act and in an effort to support the assertion that the maintenance of such status the Declaration of Trust provides, in part, that:

- (a) if determined necessary or desirable by the Trustees, in their sole discretion, the Trust may, from time to time, among other things, take all necessary steps to monitor the activities of the Trust and ownership of the Trust Units. If at any time the Trust or the Trustees become aware that the activities of the Trust and/or ownership of the Trust Units by non-residents may threaten the status of the Trust under the Tax Act as a unit trust or a mutual fund trust, the Trust, by or through the Trustees on the Trust's behalf, is authorized to take such action as may be necessary in the opinion of the Trustees to maintain the status of the Trust as a unit trust or a mutual fund trust including, without limitation, the imposition of restrictions on the issuance by the Trust of Trust Units or the transfer by any Trust Unitholder of Trust Units to a non-resident and/or require the sale of Trust Units by non-residents on a basis determined by the Trustees and/or suspend distribution and/or other rights in respect of Trust Units held by non-residents transferred contrary to the foregoing provisions or not sold in accordance with the requirements thereof; and
- (b) in addition to the foregoing, the transfer agent of Trust Units, by or through the Trustees may, if determined appropriate by the Trustees, establish operating procedures for, and maintain, a reservation system which may limit the number of Trust Units that non-residents may hold, limit the transfer of the legal or beneficial interest in any Trust Units to non-residents unless selected through a process determined appropriate by the Trustees, which may either be a random selection process or a selection process based on the first to register, or such other basis as determined by the Trustees. The operating procedures relating to such reservation system shall be determined by the Trustees and, prior to implementation, the Trust shall publicly announce the implementation of the same. Such operating procedures may, among other things, provide that any transfer of a legal or beneficial interest in any Trust Units contrary to the provisions of such reservation system may not be recognized by the Trust.

#### **Residual Liability of Precision**

Precision, the successor entity to amalgamations involving its predecessor companies, has retained all liabilities of its predecessor companies, including liabilities relating to corporate and income tax matters.

#### **Nature of Trust Units**

The Trust Units do not represent a traditional investment in the oil and natural gas services business and should not be viewed as shares of Precision. The Trust Units represent a fractional interest in the Trust. Holders of Trust Units do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring oppression or derivative actions. The Trust's sole assets are the shares of the General Partner, the PDLP A Units and other investments in securities. The price per Trust Unit is a function of anticipated net earnings, distributable cash, the underlying assets of the Trust and management's ability to effect long-term growth in the value of Precision and other entities now or hereafter owned directly or indirectly by the Trust. The market price of the Trust Units are sensitive to a variety of market conditions including, but not limited to, interest rates, the growth of the general economy, the price of crude oil and natural gas and changes in law. Changes in market conditions may adversely affect the trading price of the Trust Units.

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

#### **Qualified Dividend Treatment for Individual U.S. Holders of Trust Units**

The Trust expects that distributions it makes to individual U.S. holders of Trust Units that are treated as dividends for U.S. federal income tax purposes will be treated as qualified dividend income eligible for the reduced

maximum rate to individuals of 15% (5% for individuals in lower tax brackets). However, if the Trust does not constitute a qualified foreign corporation for U.S. federal income tax purposes, and as a result such dividends to individual U.S. holders of Trust Units do not qualify for this reduced maximum rate, such holders will be subject to tax on such dividends at ordinary income rates (currently at a maximum rate of 35%). In addition, under current law, the preferential tax rate for qualified dividend income will not be available for taxable years beginning after December 31, 2010. Neither the Trust nor Precision is providing any representation as to the U.S. tax consequences of holding Trust Units.

#### **Taxation of Precision**

Income fund structures often involve significant amounts of inter-entity debt, which may generate substantial interest expense, which serves to reduce earnings and therefore income tax payable. The Board of Trustees expects this to be the case in respect of Precision and its interest expense on the Promissory Note. There can be no assurance that the taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against Precision, it could have a materially adverse affect on the amount of distributable cash available.

#### **Risks Associated with Trust Units for Non-Resident Holders of Trust Units**

For non-resident holders of Trust Units, there are certain risks associated with holding Trust Units. Non-resident holders of Trust Units should consult their tax advisors with respect to the tax implications of holding Trust Units, including any associated filing requirements in their particular tax jurisdiction. Except as provided under the heading *Certain United States Federal Income Tax Considerations* on pages 51 to 54 of the 2005 Special Meeting Information Circular which are incorporated by reference into this Annual Information Form, neither the Trust nor Precision is providing any representations as to the tax consequences to non-residents of holding Trust Units.

#### **Nature of Distributions**

Unlike interest payments on an interest-bearing security, distributions by income trusts on trust units (including those of the Trust) are, for Canadian tax purposes, composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those cash distributions may change over time, thus affecting the after-tax return to holders of Trust Units. Therefore, the rate of return for holders of Trust Units over a defined period may not be comparable to the rate of return on a fixed-income security that provides a return on capital over the same period. This is because a holder of Trust Units may receive distributions that constitute a return of capital (rather than a return on capital) to some extent during the relevant period. Returns on capital are generally taxed as ordinary income, dividends or taxable capital gains in the hands of a holder of Trust Units, while returns of capital are generally non-taxable to a holder of Trust Units (but reduce the adjusted cost base in a Trust Unit for tax purposes).

#### **Possible Restriction on Growth**

The payout to Unitholders of substantially all of Precision's operating cash flow will make capital and operating expenditures dependent on increased cash flow or additional financing in the future. The lack of these funds could limit Precision's future growth and cash flow which in turn may affect the amount of distributions. In addition, Precision may be precluded from pursuing acquisitions or investments which may not be accretive on a short-term basis. Proposed rules on undue expansion were clarified by the Government of Canada in December 2006 with the result being that Precision can grow its equity by about \$4.0 billion dollars subject to yearly growth limitations prior to January 1, 2011 before triggering the proposed new tax.

#### **Investment Eligibility**

If the Trust ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act (collectively, Exempt Plans). Where at the end of any month an Exempt Plan holds Trust Units that are not qualified investments, the Exempt Plan must, in respect

of that month, pay a tax under Part XI.1 of the *Income Tax Act* (Canada) (the *Tax Act*) equal to 1% of the fair market value of the Trust Units at the times such Trust Units were acquired by the Exempt Plan. In addition, where a trust governed by a registered retirement savings plan or registered retirement income fund holds Trust Units that are not qualified investments, such trust will become taxable on its income attributable to the Trust Units while they are not qualified investments, including the full amount of any capital gain realized on a disposition of Trust Units while they are not qualified investments. Where a trust governed by a registered education savings plan holds Trust Units that are not qualified investments, the Plan's registration may be revoked.

#### **Debt Service**

Precision and its affiliates may, from time to time, finance a significant portion of their growth (either from acquisitions or capital expenditure additions) through debt. Amounts paid in respect of interest and principal on debt incurred by Precision and its affiliates may impair Precision's ability to satisfy its obligations under its debt instruments. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to service debt before payment of inter-entity debt. This may result in lower levels of cash for distribution by the Trust. Ultimately, subordination agreements or other debt obligations could preclude distributions altogether.

#### **Potential Sales of Additional Trust Units**

The Trust may issue additional Trust Units in the future to directly or indirectly fund capital expenditure requirements of Precision and other entities now or hereafter owned directly or indirectly by the Trust including to finance acquisitions by those entities. Such additional Trust Units may be issued without the approval of Unitholders. Unitholders have no pre-emptive rights in connection with such additional issues. The Board of Trustees have discretion in connection with the price and the other terms of the issue of such additional Trust Units.

#### **Issuance of Additional Trust Units**

The Declaration of Trust provides that an amount equal to the taxable income of the Trust will be payable each year to holders of Trust Units in order to reduce the Trust's taxable income to zero. Where in a particular year, the Trust does not have sufficient cash to distribute such an amount, the Declaration of Trust provides that additional Trust Units may be distributed in lieu of cash payments. Holders of Trust Units will generally be required to include an amount equal to the fair market value of those Trust Units in their taxable income, notwithstanding that they do not directly receive a cash payment. See *Certain Canadian Federal Income Tax Considerations – Taxation of Trust Unitholders* on pages 47 and 48 of the 2005 Special Meeting Information Circular which are incorporated by reference into this Annual Information Form. See *General Development of the Business – Cash Distributions on Trust Units* for a description of the ability to consolidate Trust Units upon the distribution of Trust Units in lieu of the payment of a cash distribution.

#### **Distribution of Assets on Redemption or Termination of the Trust**

It is anticipated that a redemption right will not be the primary mechanism for holders of Trust Units to liquidate their investment. Securities which may be received as a result of a redemption of Trust Units will not be listed on any stock exchange and no market for such securities is expected to develop. The securities so distributed may not be qualified investments for Exempt Plans, depending upon the circumstances existing at that time. On termination of the Trust, the Board of Trustees may distribute the securities directly to holders of Trust Units, subject to obtaining all of the necessary regulatory approvals. In addition, there may be resale restrictions imposed by applicable law upon the recipients of securities pursuant to a redemption right.

#### **Deductibility of Expenses**

Although the Trustees, the General Partner of PDLP and management of Precision are of the view that substantially all of the expenses claimed by the Trust, PDLP and Precision, respectively, will be reasonable and deductible, there can be no assurance that the taxation authorities will agree. If the taxation authorities successfully challenge the deductibility of any such expenses, the return to holders of Trust Units may be adversely affected.

### **Trust Unitholder Limited Liability**

The Declaration of Trust provides that no holder of Trust Units will be subject to any liability in connection with the Trust or its obligations and affairs and, in the event that a court determines that holders of Trust Units are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of the Trust's assets. Pursuant to the Declaration of Trust, the Trust will indemnify and hold harmless each holder of Trust Units from any costs, damages, liabilities, expenses, charges and losses suffered by a holder resulting from or arising out of such holder not having such limited liability. The Declaration of Trust provides that all written instruments signed by or on behalf of the Trust must contain a provision to the effect that obligations under those instruments will not be binding upon holders of Trust Units personally. Personal liability may however arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely. The *Income Trusts Liability Act* (Alberta) came into force on July 1, 2004. The legislation provides that a holder of Trust Units will not be, as a beneficiary, liable for any act, default, obligation or liability of the Trustee(s) that arises after the legislation came into force. However, this legislation has not yet been ruled upon by the Courts. The operations of the Trust will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the holders of Trust Units for claims against the Trust, including by obtaining appropriate insurance, where available and to the extent commercially feasible.

### **Precision Drilling Limited Partnership**

The risks applicable to holders of Exchangeable Units are similar to those for holders of Trust Units, as Exchangeable Units are the voting and economic equivalent of the Trust Units. For a discussion of such risks, refer to the heading *Risk Factors - The Trust* commencing on page 18 hereof.

### **Net Asset Value**

The net asset value of the assets of the Trust from time to time will vary depending upon factors which are beyond the control of Precision. The trading price of the Trust Units also fluctuates due to factors beyond the control of Precision and such trading prices may be greater than the net asset value of the Trust's assets.

### **Risks Associated with Exchangeable Units**

None of the Trust, PDLP or Precision is providing any representations as to the tax consequences of holding Exchangeable Units.

### **Indemnity of Limited Partners**

While the General Partner has agreed pursuant to the terms of the Limited Partnership Agreement of PDLP to indemnify PDLP's limited partners, including holders of the Class A Limited Partnership Units and the Exchangeable Units, the General Partner may not have sufficient assets to honour the indemnity.

### **RISKS RELATING TO THE BUSINESS CURRENTLY CONDUCTED BY PRECISION**

Certain activities of Precision are affected by factors that are beyond its control or influence. The drilling rig, camp and catering, service rig, snubbing, rentals, wastewater treatment and related service businesses and activities of Precision in Canada and the drilling rig, camp and catering and rentals business and activities of Precision in the United States are directly affected by fluctuations in 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 natural gas business in Canada and the United States. 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 Precision's operating results.

### **Operations Dependent on the Price of Oil and Natural Gas**

Precision sells its services to oil and natural gas exploration and production companies. Macro economic and geopolitical factors associated with oil and natural gas supply and demand are prime drivers for pricing and profitability within the oilfield services industry. Generally, when commodity prices are relatively high, demand for Precision's services are high, while the opposite is true when commodity prices are low. The markets for oil and natural gas are separate and distinct. Oil is a global commodity with a vast distribution network. As natural gas is most economically transported in its gaseous state via pipeline, its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. Recent developments in the transportation of liquefied natural gas (LNG) in ocean going tanker ships have introduced an element of globalization to the natural gas market. However, due to technical, political and environmental challenges and other factors, the volume capability of the world's LNG infrastructure is not expected to be large enough to influence pricing in North American markets for a number of years. Crude oil and natural gas prices are quite volatile, which accounts for much of the cyclical nature of the oilfield services business. Oilfield service business cycles are muted somewhat in non-North American markets where projects tend to be larger and more long-term and are therefore less susceptible to short-term commodity price fluctuations.

Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries and other major petroleum exporting countries, for instance, may affect both the demand for, and the supply of, oil and natural gas. 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. This would likely result in a corresponding decline in the demand for Precision's services and could have a material adverse effect on its revenues, cash flows and profitability. 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, Precision's ability to retain skilled rig personnel and 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 and oilfield services industries will not decline.

### **Competitive Industry**

The oilfield services industry in which Precision operates is, and will continue to be, very competitive. There is no assurance that Precision will be able to continue to compete successfully or that the level of competition and pressure on pricing will not affect its margins.

### **Workforce Availability**

Precision's ability to provide reliable services is dependent upon the availability of well-trained, experienced crews to operate its 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 employees 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 to attract new workers to the industry as required. Many of Precision's businesses are currently experiencing manpower shortages in peak operating periods. 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. In the near-term anticipated declines in activity will offset challenges due to rig expansion.

### **Capital Overbuild in the Drilling Industry**

As at December 31, 2007 there were about 900 industry drilling rigs in Canada (up 7% from the prior year) and about 2,160 marketed drilling rigs in the United States. There is no assurance that the level of demand for drilling rigs in the future will be able to support the size of the industry drilling fleets in Canada and the United States. Any decline in demand for drilling services within the service industry, directly or indirectly related to the





current drilling rigs available, could also lead to a decline in the demand for Precision's services, resulting in a material adverse effect on Precision's revenues, cash flows, earnings and distributions to Unitholders.

**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