

PRECISION DRILLING TRUST

Form 40-F

March 30, 2007

**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, 2006**

Commission file number **001-14534**

PRECISION DRILLING TRUST

(Exact name of registrant as specified in its charter)

Alberta, Canada (Province or other jurisdiction of incorporation or organization)	1381 (Primary Standard Industrial Classification Code Number (if applicable))	Not applicable (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, 811 Dallas Avenue, Houston, Texas 77022
(713) 658-9486**

(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.

Title of each class Trust Units	Name of each exchange on which registered New York Stock Exchange
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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:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Annual Information
Form | <input type="checkbox"/> 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: **125,536,329 Trust Units**

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

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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, 2006;
 - (b) Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2006; and
 - (c) Consolidated Financial Statements for the fiscal year ended December 31, 2006 (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, 2006
Dated March 29, 2007

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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*. Forward-looking information and statements are typically identified by words such as anticipate, could, should, expect, seek, may intend, likely, will, plan, estimate, believe and similar expressions suggesting future outcomes or statements of an outlook.

Forward-looking information and statements in this Annual Information Form include, but are not limited to statements with respect to:

- 2007 expected cash provided by continuing operations;
- 2007 capital expenditures, including the amount and nature thereof;
- 2007 distributions;
- performance of the oil and natural gas industry, including 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 2007 strategy and outlook for our business segments;
- expansion and growth of our business and operations, including diversification of our earnings base, 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;
- the maintenance of existing customer, supplier and partner relationships;
- supply channels;
- accounting policies and tax liability;
- 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;
- 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;
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 commission and the United States Securities and Exchange Commission and available on SEDAR at www.sedar.com and the website of the U.S. Securities and Exchange Commission at 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 SW 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 the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) 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 99.82% interest in PDLP through its holding of Class A Limited Partnership Units (the PDLP A Units) and the remaining 0.18% 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 SW Calgary, Alberta, T2P 3Y7, telephone (403) 716-4500 and facsimile (403) 264-0251, 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 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 SW Calgary, Alberta, T2P 3Y7, telephone (403) 716-4500 and facsimile (403) 264-0251, 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, 2006:

Name of Subsidiary or Partnership	Percent or Interest Owned	Jurisdiction of Incorporation or Continuance
Precision Drilling Limited Partnership	99.82%	Manitoba
1194312 Alberta Ltd.	100%	Alberta
Precision Drilling Corporation	99.82%	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, 2006 there were 125,536,329 PDLP A Units outstanding.
- (2) As of December 31, 2006 there were 221,595 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

During 2006, Precision focused capital spending on additions to property, plant and equipment to grow and upgrade its rig fleet, initiated contract drilling operations in the United States and acquired Terra, a privately owned wastewater treatment business operating at remote worksites.

During 2006, Precision also initiated a plan to establish a full-cycle track record of distributions following conversion to an income trust in November 2005. However, on October 31, 2006, the Government of Canada announced a Tax Fairness Plan containing its intentions to bring about new tax measures including a Distribution Tax on distributions from publicly traded income trusts and limited partnerships. The government is proposing a four-year transition period for existing income trusts and limited partnerships whereby the new measures will not apply until their 2011 taxation year. Under the proposals, flow-through entities will be taxed more like corporations and their investors will be treated more like shareholders. The proposed new tax measures will impair the flow-through nature of Precision Drilling Trust's current tax structure. If enacted into law, these tax measures would result in a distribution tax to the Trust which will reduce the cash distributed to Unitholders (as defined below) by the amount of distribution tax paid. Precision originally converted to a trust because the tax rules of the day allowed the market to place a higher value for unitholders on the flow-through structure than the traditional

corporate structure. In light of proposed tax legislative changes the Trust's board of trustees (the Board of Trustees and each a Trustee) will be examining whether changes in the current legal structure are appropriate and in the best interests of unitholders and, if so, when such changes should be implemented.

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

Precision is a mature organization that operates in a cyclical industry with seasonal swings in revenue levels. The actual cash flow available for distribution to Unitholders is a function of numerous factors, including financial performance, debt covenants and obligations, working capital requirements, as well as maintenance and expansion capital expenditure requirements for the purchase of property, plant and equipment.

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 number of wells and metres drilled annually. Precision's continuing business services during 2006 comprised: contract drilling rigs; well service rigs; snubbing; procurement and distribution of oilfield supplies; camp and catering; manufacture and refurbishment of rig equipment; portable wastewater treatment services; as well as rental of surface oilfield equipment, tubulars, well control equipment and wellsite accommodations.

Precision invested \$171 million in expansion capital for the purchase of property, plant and equipment and \$92 million in productive capacity maintenance in 2006. When combined with the \$16 million business acquisition of Terra, Precision increased its asset base by \$279 million in 2006. A total of 13 new drilling rigs were commissioned in 2006 and two were decommissioned.

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. Precision deployed a second drilling rig to the United States from Canada in early 2007 which has commenced drilling in Colorado. As conditions warrant, Precision may deploy additional rigs from Canada into the United States market.

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 in 2003 and 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 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.

Those dispositions returned Precision to its original focus on oil and gas contract drilling, service rig and supplemental business lines in western Canada. The continuing business represents Precision's core expertise and marks a return to Precision's original business roots 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 and closed the year with 51 treatment units. The service provided by Terra complements those provided by the LRG Catering and Precision Rentals divisions and expands the diversity of services Precision offers customers.

On May 21, 2004, Precision acquired all of the land drilling business carried on by GlobalSantaFe Corporation for an aggregate purchase price of US\$316.5 million. That land drilling business consisted of 31 drilling rigs, then located in Kuwait, Saudi Arabia, Egypt, Oman and Venezuela.

Pursuant to an agreement dated May 8, 2004, Precision purchased all of the issued and outstanding shares of Reeves Oilfield Services Ltd. for an aggregate purchase price of £92.4 million (Great Britain Pounds). Reeves Oilfield Services Ltd. was an international provider of open hole wireline logging services to the oil and natural gas industry and carried out field operations in the western and Appalachian regions of the United States, western Canada, Australia, Great Britain, Colombia, Europe, the Middle East and Africa.

Significant Dispositions

On August 31, 2005, Precision sold its Energy Services and International Contract Drilling divisions to Weatherford for a purchase price consisting of 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 International Corporation (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, petro-chemical 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.

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 15th day following the end of each calendar month to 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; productive capacity maintenance expenditures 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 reduced or suspended entirely. The market value of the Trust Units may deteriorate if the Trust decreases 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 into this Annual Information Form by reference.

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 Exchangeable 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

A distribution reinvestment plan (the 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, Unitholders who are not residents of Canada are not eligible to participate, directly or indirectly, in the DRIP. Holders of Class B Limited Partnership Units of PDLP are also 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 has 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. Effective December 18, 2006 the DRIP 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.

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 Unitholders all information to which Unitholders are entitled under the Declaration of Trust, including relevant information with respect to financial reporting and income taxes;
- call and hold meetings of 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 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, 2006, Precision had approximately 5,500 employees.

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

Years ended December 31,	2006	2005	2004
Contract Drilling Services	\$ 1,009,821	\$ 916,221	\$ 727,710
Completion and Production Services	441,017	369,667	313,386
Inter-segment Eliminations	(13,254)	(16,709)	(12,608)
Total Revenue	\$ 1,437,584	\$ 1,269,179	\$ 1,028,488

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 2006 targeted natural gas. In general, drilling activity in the WCSB is split between three provinces with approximately 75% in Alberta, 15% in Saskatchewan and 10% in British Columbia. 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. 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 eighth largest producer of oil and third largest producer of natural gas. Approximately half of Canada's oil and 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 accompanied by more costly and challenging unconventional sources associated with oil sands, heavy oil, natural gas in coal (coal bed methane), as well as natural gas in deeper formations. The oil sands deposits in northern Alberta are a world-scale resource with an estimated 179 billion barrels of recoverable reserves which are second only to Saudi Arabia in terms of reserves held by an individual country.

Precision derives essentially 100% of its revenue from the Canadian market. In 2006 an expansion into the United States drilling market was initiated and is expected to become a larger part of Precision's operations in the future.

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 services providers are largely driven by current and expected price of crude oil and natural gas which are determined by supply and demand fundamentals on a global and regional level. Crude oil and natural gas prices have historically been volatile. The upward trend in commodity prices since 2002 peaked for natural gas in December 2005 and for oil in July 2006. Prices for both commodities have retreated since then but remain at reasonably high levels when compared to pricing trends over the past five years.

CONTRACT DRILLING SERVICES

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

Precision Drilling 240 drilling rigs approximately 29% of the Canadian industry;

LRG Catering (LRG) 101 drilling camps approximately 16% of the industry;

Rostel Industries (Rostel) capabilities that include engineering, machining, fabrication, component manufacturing and repair services for drilling and service rigs; and

Columbia Oilfield Supply (Columbia) capabilities that include centralized procurement, inventory and distribution of consumable supplies,

This segment also includes the operations of the following United States subsidiary:

Precision Drilling Oilfield Services, Inc. one drilling rig was deployed to the United States in 2006 and a second rig arrived in the United States in early 2007.

Precision Drilling

The Precision Drilling division owns and operates the largest fleet of land drilling rigs in Canada with 240 actively marketed drilling rigs located throughout the WCSB, accounting for approximately 29% of the industry's fleet of 842 drilling rigs in Canada at December 31, 2006.

Oil and natural gas well drilling contracts are carried out on a daywork, meterage 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 meterage 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 meterage 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, meterage 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 few days for a single well to multiple year, multiple well drilling programs. Precision's newly built drilling rigs tend to 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. All of Precision's drilling rigs can be winterized, allowing for operations in the harsh weather conditions faced in the Canadian drilling environment. Conventional rigs are configured to handle either one, two or three joints of range 2 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 western Canada's foothills and Rocky Mountain regions. Precision's triple rig fleet includes specialized rigs for deep sour natural gas well drilling and for operating in very cold climates.

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, range 3 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, coal bed methane, tight gas, oil sands production and steam assisted gravity drainage (SAGD) projects. These multiple well programs are drilled efficiently from a single pad using a centralized mud system and other innovative rig design features. SAGD techniques are used extensively in the production of heavy oil reserves and in-situ bitumen reserves.

The Super Single Light is a smaller capacity, specialized version of the Super Single. These rigs have been built for drilling shallow wells up to 1,200 metres in depth. Using range 3 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.

To facilitate customer requirements Precision also owns 16 mobile 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 51 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. 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, 2006:

Precision Fleet

Industry Fleet ⁽¹⁾