

2007 “In-Kind” Distribution

Trust Unitholders

Under the Declaration of Trust for Precision Drilling Trust (the “Trust”), an amount equal to the net income for tax purposes of the Trust for its taxation year, including any net capital gains realized by the Trust, is automatically declared payable to unitholders of the Trust. This amount declared payable may be paid by a distribution of cash and/or settled “in-kind” by the issuance of additional Trust units, at the discretion of the Board of Trustees.

In the event that additional Trust units are issued to satisfy an amount payable, the terms of the Declaration of Trust require that immediately after the “in-kind” distribution, the number of outstanding Trust units automatically will be consolidated such that each holder will hold the same number of Trust units after the consolidation as such holder held before the distribution of additional Trust units. Each Trust unit certificate representing a number of Trust units held prior to the distribution of additional Trust units will be deemed to represent the same number of Trust units after the distribution of additional Trust units and the consolidation. In summary, holders of Trust units will not hold more Trust units after an “in-kind” distribution.

The following is provided as an example of the consequences to a holder of Trust units of an “in-kind” distribution:

Example:

Assumptions:

Trust units held ex-distribution date:	1,000 units
Trust units deemed issued on payment date	10 units

Trust units owned at ex-distribution date	1,000
Trust units issued “in-kind” on payment date	10
Trust units owned immediately before consolidation	1,010
Consolidation adjustment	(10)
Trust units owned immediately after consolidation ⁽¹⁾	1,000

(1) No new Trust unit certificate is issued as a result of the consolidation process as the number of Trust units held by a unitholder on the ex-distribution date is equal to the number of Trust units held by a unitholder immediately after the consolidation.

PDLP Exchangeable Unitholders

Under the terms of the Precision Drilling Limited Partnership (“PDLP”) Limited Partnership Agreement, PDLP is required to make payments to holders of exchangeable B units of PDLP (“Exchangeable Units”) in an amount equal to distributions declared by the Trust and such payments are required to be property that is economically equivalent

to distributions made to holders of Trust units. Holders of Exchangeable Units do not receive additional Exchangeable Units if Trust units issued in an "in-kind" distribution are consolidated. Details of the Trust's "in-kind" distribution and consolidation process are provided above under Trust Unitholders.

“In-Kind” Tax Treatment

Trust Unitholders Resident in Canada

The following information is intended to assist Canadian resident individual unitholders of Precision Drilling Trust (the “Trust”) in determining the income tax effect of an “in-kind” distribution and immediate consolidation process.

The Trust is an unincorporated open-ended investment trust established under the laws of Alberta which qualifies as a mutual fund trust as defined in the *Income Tax Act* (Canada) (“Tax Act”). The Trust units are qualified investments for registered retirement savings plans (“RRSP”), registered retirement income funds (“RRIF”), deferred profit sharing plans (“DPSP”) and registered education savings plans (“RESP”) as defined in the Tax Act.

The following information is based on the Trust’s understanding of the Tax Act and is provided as general information only. This information is not exhaustive of all possible income tax considerations under the Tax Act and is not intended to be legal or tax advice to any particular holder of Trust units. Unitholders or potential unitholders should consult their own legal, business and/or tax advisors as to the tax implications of holding Trust units in their particular circumstances.

Taxable Canadian Resident

In general, an “in-kind” distribution of Trust units will be treated as income for income tax purposes (and is subject to Canadian income tax). As a result of the immediate consolidation, the adjusted cost base of the Trust units held by a unitholder on the ex-distribution date would be increased by the amount of income allocated to the “in-kind” distribution.

Non-taxable Canadian Resident (RRSP, RRIF, DPSP, RESP)

If a unitholder holds his or her Trust units in an RRSP, RRIF, DPSP or RESP, no amount is required to be reported by the unitholder as income. There is also no increase in the adjusted cost base of Trust units held in an RRSP, RRIF, DPSP or RESP.

Precision Drilling Limited Partnership – Exchangeable LP B Unitholders

The following information is intended to assist holders (“Partners”) of exchangeable partnership interests (“Exchangeable Units”) in Precision Drilling Limited Partnership (“PDLP”) in determining the income tax effect of an “in-kind” distribution.

The following information is based on PDLP’s understanding of the *Income Tax Act (Canada)* (“Tax Act”) and is provided as general information only. This information is not exhaustive of all possible income tax considerations under the Tax Act and is not intended to be legal or tax advice to any particular Partner. Partners should consult their own legal, business and/or tax advisors as to the tax implications of holding Exchangeable Units in their particular circumstances.

The ACB to a Partner of an Exchangeable Unit will be the cost of the Exchangeable Unit plus or minus adjustments required under the Tax Act. The adjustments required generally include additions for income and capital gains allocated to a Partner and reductions for cash or “in-kind” distributions received by, and losses and capital losses allocated to a Partner. If, at the end of a fiscal period of PDLP, these cumulative reductions exceed the cost plus the cumulative additions to the ACB of a Partner’s Exchangeable Units, the Partner will realize an immediate capital gain to the extent of the excess, resulting in the ACB of the Exchangeable Unit being adjusted to nil.

United States and Other Non-resident Trust Unitholders

United States Trust Unitholders

Precision Drilling Trust (the “Trust”) is an unincorporated open-ended investment trust established under the laws of Alberta which qualifies as a mutual fund trust as defined in the *Income Tax Act (Canada)* (“Tax Act”). The following information is intended to assist individual holders of Trust units in determining the income tax effect of an “in-kind” distribution and immediate consolidation process for United States (“U.S.”) federal income tax purposes.

The following information is based on the Trust’s understanding of the Internal Revenue Code of 1986 and regulations thereunder and is provided as general information only. This information is not exhaustive of all possible U.S. income tax considerations and is not intended to be legal or tax advice to any particular holder of Trust units. Unitholders or potential unitholders should consult their own legal, business and/or tax advisors as to the tax implications of holding Trust units in their particular circumstances as well as to determine whether claiming a credit or deduction for foreign income taxes is more beneficial.

An “in-kind” distribution to a U.S. resident unitholder is subject to Canadian withholding tax of 15%. For U.S. income tax purposes an “in-kind” distribution is generally treated as

a non taxable stock dividend and there is no adjustment to the cost base of the Trust units held by a U.S. resident unitholder. Taxable U.S. resident unitholders may be able to claim a foreign tax credit for the Canadian withholding tax

Other Non-resident Trust Unitholders

An “in-kind” distribution to a non-resident unitholder is subject to Canadian withholding tax of up to 25%, unless such rate is reduced under an applicable income tax convention between Canada and the non-resident unitholder’s jurisdiction of residence.

The tax treatment of an “in-kind” distribution and the ability to obtain a foreign tax credit will depend on the laws of the non-resident unitholder’s jurisdiction of residence. Non-resident unitholders should consult their own legal, business and/or tax advisors as to the tax implications of holding Trust units in their particular circumstances.