

PRECISION DRILLING CORPORATION
AUDIT COMMITTEE
CHARTER AND TERMS OF REFERENCE

General

The purpose of this document is to establish the terms of reference of the Audit Committee (the “Committee”) of Precision Drilling Corporation (the “Corporation”). The Committee is a standing committee of the Board of Directors of the Corporation (the “Board of Directors”) appointed to assist the Board of Directors in fulfilling its oversight responsibilities with respect to financial reporting by the Corporation, in its own capacity and as the administrator for Precision Drilling Trust (the “Trust”).

It is critical that the external audit function, a mechanism that promotes reliable, accurate and clear financial reporting to unitholders of the Trust, is working effectively and efficiently, and that financial information is being relayed to the Board of Directors, and ultimately by the Board of Directors to the Board of Trustees (the “Board of Trustees”) of the Trust, in a timely fashion. The activities of the Committee are fundamental to the process.

The requirement to have an audit committee is established in the *Business Corporations Act* (Alberta) and, in addition, is required pursuant to the *Securities Act* (Alberta) and the United States *Securities Exchange Act of 1934* for issuers listed on the New York Stock Exchange (the “NYSE”).

Committee Structure and Authority

(a) Composition

The Committee shall consist of no fewer than three members, at least a majority of whom must be resident Canadians. Each member of the Committee shall be “independent” under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the units of the Trust are listed for trading.

Each member of the Committee must be “financially literate” as such term is interpreted by the Board of Directors in its business judgment in light of, and in accordance with, the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Trust’s units are listed for trading. At least one of the members of the Committee must also have “accounting or related management financial expertise” as such term is defined from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Trust’s units are listed for trading.

No Committee member shall serve on the audit committees of more than three other issuers without prior determination by the Board of Directors that such simultaneous service would not impair the ability of such member to serve effectively on the Committee.

(b) Appointment and Replacement of Committee Members

Each member of the Committee shall serve at the pleasure of the Board of Directors. Any member of the Committee may be removed or replaced at any time by the Board of Directors, and shall automatically cease to be a member of the Committee upon ceasing to be a director of the Corporation. The Board of Directors may fill vacancies on the Committee by appointment from among its number. The Board of Directors shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all their power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be appointed by the Board of Directors annually and each member of the Committee shall hold office until the next annual meeting of the unitholders of the Trust after his or her election or until his or her successor shall be duly qualified and appointed.

(c) Quorum

The Committee shall have a quorum of not less than a majority of its members.

(d) Review of Charter and Terms of Reference

The Committee shall review and reassess the adequacy of this Charter and Terms of Reference at least annually and otherwise as it deems appropriate, and recommend changes to the Board of Directors. The Committee shall evaluate its performance with reference to this Charter and Terms of Reference annually. The Committee will approve the form of disclosure of this Charter and Terms of Reference on the Trust's website and, where required by applicable securities laws or regulatory requirements, in the annual management information circular or annual report of the Trust.

(e) Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

(f) Reporting to the Board of Directors

The Committee will report through the Chair of the Committee to the Board of Directors following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter and Terms of Reference.

(g) Committee Chair Responsibilities

The Board of Directors shall appoint a Chair of the Committee. The primary responsibility of the Chair of the Committee is to provide leadership to the Committee to enhance its effectiveness. In such capacity, the Chair of the Committee will perform the duties and responsibilities set forth in the "Position Description for the Audit Committee Chair".

(h) Other Authority

The Committee may request any officer or employee of the Corporation, or the Corporation's or the Trust's legal counsel, or any external or internal auditors to attend a meeting of the Committee or to meet with any members of, or consultants to the Committee. The Committee shall also have the authority to communicate directly with the internal auditor and external auditor.

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Corporation's expense.

Purpose

The Committee shall have responsibility for overseeing the development and maintenance of the Corporation's and the Trust's systems for financial reporting. Responsibility for accounting for transactions and internal control over financial reporting lies with senior management of the Corporation with oversight responsibilities vested in the Board of Directors. The Committee is a permanent committee of the Board of Directors whose purpose is to assist the Board of Directors by overseeing:

- the integrity of financial reporting to the holders of units of the Trust ("Unitholders") and the investment community;
- the integrity of the financial reporting process, including the audit process;
- the Corporation's and the Trust's compliance with legal and regulatory requirements as they relate to financial reporting matters;
- the external auditor's qualifications and independence;
- the integrity of the system of internal accounting and financial reporting controls implemented by management;
- the work and performance of the Corporation's and the Trust's financial management, internal audit function and its external auditor; and
- any other matter specifically delegated to the Committee by the Board of Directors.

Committee Responsibilities

The Committee shall:

- review the interim and annual financial statements of the Corporation and make any comments or recommendations to the Board of Directors or where authorized by the Board of Directors, approve the interim financial statements;
- review the annual financial statements of the Trust and related notes and management's discussion and analysis ("MD&A") components and make recommendations to the Board of Directors, and ultimately, once approved by the Board of Directors, to the Board of Trustees, for their approval;
- review the interim financial statements of the Trust and related notes and MD&A components prepared for distribution to the Unitholders and the investment community ;
- be satisfied that adequate procedures are in place for the review of the Trust's public disclosure of financial information extracted or derived from the Trust's financial statements, other than the public disclosure referred to above, and must periodically assess the adequacy of those procedures;

- report, through the Chair of the Committee, to the Board of Directors following each meeting of the Committee, including an outline of the nature of discussions, major decisions reached by the Committee, and its activities and compliance with this Charter and Terms of Reference;
- approve the terms of the external auditor's engagement letter as agreed between the external auditor and financial management of the Corporation, and the compensation to be paid by the Corporation to the external auditor;
- review the reasons for any proposed change in the external auditor which is not initiated by the Committee or the Board of Directors and any other significant issues related to the change, including the response of the incumbent external auditor, and enquire as to the qualifications of the proposed external auditor before making its recommendations to the Board of Directors;
- be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit or review services for the Corporation or the Trust, including the resolution of disagreements between management and the external auditor regarding financial reporting or the application of any accounting principles or practices;
- require the external auditor and internal auditor to report directly to the Committee;
- provide the external auditor with notice of every meeting of the Committee and, at the expense of the Corporation, the opportunity to attend and be heard thereat, and if so requested by a member of the Committee, shall attend every meeting of the Committee held during the term of the office of the external auditor. The external auditor of the Corporation or any member of the Committee may call a meeting of the Committee;
- pre-approve all permitted non-audit services to the Corporation or any affiliated entities by the external auditor or any of their affiliates subject to any *de minimus* exception allowed by applicable law. The Committee may delegate to one or more designated members of the Committee the authority to pre-approve non-audit services, however any non-audit services that have been pre-approved by any such delegate of the Committee must be presented to the Committee at its first scheduled meeting following such pre-approval;
- review the disclosure with respect to its pre-approval of audit and non-audit services provided by the external auditors;
- review and discuss with management and the external auditor, as applicable, (a) all critical accounting policies to be used in the preparation of the interim and annual financial statements and the annual audit, (b) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Trust's or the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Trust's or the Corporation's respective internal controls and any special audit steps adopted in light of material control deficiencies; (c) analyses prepared by management or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative Canadian Generally Accepted

Accounting Principles (“GAAP”) methods on the financial statements¹ of the Trust and any other opinions sought by management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item; (d) any management letter or schedule of unadjusted differences provided by the external auditor and the Trust’s response to that letter and other material written communication between the external auditor and management; (e) any problems, difficulties or differences encountered in the course of the audit work including any disagreements with management or restrictions on the scope of the external auditor’s activities or on access to requested information and management’s response thereto; (f) the effect of regulatory and accounting initiatives, as well as any off balance sheet structures on the financial statements of the Trust and other financial disclosures; (h) any reserves, accruals, provisions or estimates that may have a significant effect upon the financial statements of the Trust; (i) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Trust or the Corporation and their impact on the reported financial results of the Trust; and (j) the use of any “pro forma” or “adjusted” information not in accordance with generally accepted accounting principles;

- reviewing earnings press releases (paying particular attention to any use of “pro forma” or “adjusted” “non-GAAP” information) as well as financial information and earnings guidance provided to analysts and rating agencies, it being understood that such review may in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made);
 - review with the external auditor and management the general audit approach and scope of proposed audits of the financial statements of the Trust, the objectives, staffing, locations, co-ordination and reliance upon management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
 - review any legal matter, claim or contingency that could have a significant impact on the financial statements of the Trust, the Corporation’s or the Trust’s compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Trust’s financial statements;
 - review the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Corporation’s operations;
 - review the interim review engagement report of the external auditor before the release of interim financial statements of the Trust;
 - review and discuss with management the Corporation’s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation’s risk assessment and risk management policies such as financial derivatives and hedging activities;
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- annually request and review a report from the external auditor regarding (a) the external auditor's quality-control procedures, (b) any material issues raised by the most recent quality-control review or peer review of the external auditor, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, and (c) any steps taken to deal with any such issues;
- evaluate the qualifications and performance of the external auditor, review the Corporation's hiring policies for partners, employees or former employees of the external auditor and make recommendations to the Board of Directors as to the appointment or reappointment of the external auditor to be proposed for approval by the Board of Trustees and Unitholders;
- review the independence of the external auditor, annually request and review a written report from the external auditor respecting its independence, including a list of all relationships between the external auditor and each of the Corporation and the Trust, and consider applicable auditor independence standards;
- verify that the lead audit partner of the external auditor and the audit partner responsible for reviewing the audit are rotated at least every five years as required by the Sarbanes-Oxley Act of 2002, and further consider rotation of the external auditor's firm itself;
- discuss with management and the external auditors any accounting adjustments that were noted or proposed by the external auditors but were not adopted (as immaterial or otherwise);
- review the adequacy and effectiveness of the Corporation's and the Trust's internal accounting and financial controls based on recommendations from management and the external auditor for the improvement of accounting practices and internal controls;
- establish and periodically review procedures for (a) the receipt, retention and treatment of complaints received by the Corporation or the Trust regarding accounting, internal controls or auditing matters, and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters or other matters that could negatively affect the Corporation or the Trust such as violations of the Joint Code of Business Conduct and Ethics;
- review periodically with management and the external auditors any significant complaints received;
- review other financial information included in the Trust's Annual Report to ensure that it is consistent with the Board of Directors' knowledge of the affairs of the Corporation and the Trust and is unbiased and non-selective;
- if requested by the Board of Directors, receive from the Chief Executive Officer and Chief Financial Officer of the Corporation a certificate certifying in respect of each annual and interim report of the Trust the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws and receive and review disclosures made by such officers about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud

involving management or persons who have a significant role in the Corporation's internal controls;

- review any report required by law, regulations or stock exchange requirement to be included in the Trust's periodic reports;
- meet at least four times a year on a quarterly basis or more frequently as circumstances require, with the Chief Financial Officer of the Corporation, the head of the internal audit function of the Corporation, if other than the Chief Financial Officer, and the external auditor in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately;
- meet in separate, non-management, in-camera sessions at each regularly scheduled meeting;
- meet in a separate non-management, closed sessions with any other internal personnel or outside advisors, as necessary or appropriate;
- review annually the Corporation's insurance programs and pension plans, not including the Directors and Officers insurance program;
- review the results of the annual external audit, including the audit report to the Trust's Unitholders and any other reports prepared by the external auditors and the informal reporting from the external auditor on accounting systems and internal controls, including management's response;
- review and evaluate the scope, risk assessment, and nature of the internal audit plan and any subsequent changes;
- consider and review the following issues with management and the head of the internal audit group:
 - significant findings of the internal audit group as well as management's response to them;
 - any difficulties encountered in the course of their internal audits, including any restrictions on the scope of their work or access to required information;
 - the internal auditing budget and staffing;
 - the internal Audit Services Charter; and
 - compliance with the The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*;
- approve the appointment, replacement or dismissal of the head of the internal audit group; and
- direct the head of the internal audit group to review any specific areas the Committee deems necessary; and

- receive assurance that the obligations of the Corporation pursuant to the Administration Agreement are met and that good corporate governance procedures are used in connection therewith.

In addition, the Committee shall hold in-camera meetings with representatives of the external auditor and internal auditor to discuss audit related issues, including the quality of accounting personnel.

The Committee shall have such other powers and duties as may from time to time by resolution be assigned to it by the Board of Directors.

Limitation of Committee's Role

While the Committee has the responsibilities and powers set forth in its Charter and Terms of Reference, it is not the duty of the Committee to prepare financial statements, plan or conduct audits or to determine that the Trust's or the Corporation's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of the management of the Corporation and the external auditor.

The Committee, the Chair of the Committee and any Committee members identified as having accounting or related financial expertise are members of the Board of Directors, appointed to the Committee to provide broad oversight of the financial, risk and control-related activities of the Corporation and the Trust, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities.

Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liabilities that are greater than the duties, obligations and liabilities imposed on such person as a member of the Committee and Board of Directors in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Trust's financial information or public disclosure.

Approved February 13, 2008