UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

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

or

þ **Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2011

Commission file number: 001-14534

PRECISION DRILLING CORPORATION

(Exact name of Registrant as specified in its charter)

Alberta, Canada	**1381**	**Not Applicable**
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification)

800, 525 - 8 Avenue, S.W., Calgary, Alberta, Canada T2P 1G1
(403) 716-4500
(Address and telephone number of Registrant's principal executive offices)

Precision Drilling (US) Corporation, 10350 Richmond Avenue, Suite 700, Houston, Texas 77042
(713) 435-6100
(Name, address, (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Shares	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

Information filed with this Form:

þ Annual Information Form þ 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: 276,081,797 Common Shares outstanding as at December 31, 2011.

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.

þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

¨ Yes ¨ No

The documents (or portions thereof) forming part of this Form 40-F are incorporated by reference into the following registration statements under the Securities Act of 1933, as amended:

Form	**Registration No.**
S-8	333-167614
F-10	333-167610
F-4	333-179427-01 to 333-179427-18

DISCLOSURE CONTROLS AND PROCEDURES

For information on disclosure controls and procedures, see “Evaluation of Disclosure Controls and Procedures” in the Annual Information Form for the fiscal year ended December 31, 2011, filed as Exhibit 99.1 (the “Annual Information Form”) and “Evaluation of Disclosure Controls and Procedures” in Management’s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2011, filed as Exhibit 99.2 (“Management’s Discussion and Analysis”).

INTERNAL CONTROL OVER FINANCIAL REPORTING

For information on internal control over financial reporting, see “Management’s Report to the Shareholders” and “Report of Independent Registered Public Accounting Firm” in the Consolidated Financial Statements for the fiscal year ended December 31, 2011, filed as Exhibit 99.3. Also see “Internal Control Over Financial Reporting” in the Annual Information Form.

AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors of the Registrant has determined that it has at least one audit committee financial expert serving on its audit committee. Each of Patrick M. Murray, Allen R. Hagerman and William T. Donovan has been designated an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange’s listing standards applicable to the Registrant. See “Audit Committee Information – Composition of the Audit Committee” and “Audit Committee Information – Relevant Education and Experience” in the Annual Information Form. The Commission has indicated that the designation of a person as an audit committee financial expert does not make them an “expert” for any purpose, impose any duties, obligations or liability on them that is greater than that imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee or the board of directors.

CODE OF ETHICS

The Registrant has adopted the Code of Business Conduct and Ethics (the “Code”) which applies to every director, officer and employee of the Registrant, including the principal executive officer, principal financial officer, principal accounting officer or controller and any person performing similar functions. The Code is available on the Registrant’s website at www.precisiondrilling.com. No waivers have been granted from, and there have been no amendments to, any provision of the Code during the 2011 fiscal year.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

For information on principal accountant fees and services, see “Audit Committee Information – Pre-approval Policies and Procedures” and “Audit Committee Information – Audit Fees” in the Annual Information Form.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

For information on contractual obligations, see “Capital and Liquidity Management – General” in Management’s Discussion and Analysis.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately-designated standing Audit Committee. The members of the Audit Committee are:

Chairman:	Patrick M. Murray
Members:	William T. Donovan
	Robert J.S. Gibson
	Allen R. Hagerman
	Robert L. Phillips

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the staff of the Commission, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an Annual Report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

Precision Drilling Corporation

By: /s/ Kevin A. Neveu
Name: Kevin A. Neveu
Title: President and Chief Executive Officer

Date: March 30, 2012

EXHIBITS

Exhibit Number	Description
23.1	Consent of KPMG LLP, Chartered Accountants.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Annual Information Form for the fiscal year ended December 31, 2011.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2011.
99.3	Consolidated Financial Statements for the fiscal year ended December 31, 2011.

Exhibit 23.1



KPMG LLP
Chartered Accountants
2700 205 – 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Telefax (403) 691-8008
Internet www.kpmg.ca

Consent of Independent Registered Public Accounting Firm

The Board of Directors of Precision Drilling Corporation

We consent to:

Ÿ the inclusion and use in this annual report on Form 40-F and the incorporation by reference in the registration statement on Form S-8 (No. 333-167614), the registration statement on Form F-10 (No. 333-167610) and the registration statement on Form F-4 (Nos. 333-179427-01 to 333-179427-18) of our report dated March 9, 2012, on the consolidated statement of financial position of Precision Drilling Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010; and

Ÿ the inclusion and use in the annual report on Form 40-F and the incorporation by reference in the registration statement on Form S-8 (No. 333-167614) and the registration statement on Form F-4 (Nos. 333-179427-01 to 333-179427-18) of our report dated March 9, 2012 on the effectiveness of internal control over financial reporting as of December 31, 2011.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 30, 2012

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin A. Neveu, certify that:

1. I have reviewed this annual report on Form 40-F of Precision Drilling Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Precision Drilling Corporation as of, and for, the periods presented in this report;

4. Precision Drilling Corporation's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Precision Drilling Corporation and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Precision Drilling Corporation, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of Precision Drilling Corporation's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Precision Drilling Corporation's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Precision Drilling Corporation's internal control over financial reporting; and

5. Precision Drilling Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Precision Drilling Corporation's auditors and the audit committee of Precision Drilling Corporation's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Precision Drilling Corporation's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Precision Drilling Corporation's internal control over financial reporting.

Dated: March 30, 2012

By: /s/ Kevin A. Neveu

Kevin A. Neveu, President & Chief Executive Officer
of Precision Drilling Corporation

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert McNally, certify that:

1. I have reviewed this annual report on Form 40-F of Precision Drilling Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Precision Drilling Corporation as of, and for, the periods presented in this report;

4. Precision Drilling Corporation's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Precision Drilling Corporation and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Precision Drilling Corporation, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of Precision Drilling Corporation's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Precision Drilling Corporation's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Precision Drilling Corporation's internal control over financial reporting; and

5. Precision Drilling Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Precision Drilling Corporation's auditors and the audit committee of Precision Drilling Corporation's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Precision Drilling Corporation's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Precision Drilling Corporation's internal control over financial reporting.

Dated: March 30, 2012

By: /s/ Robert McNally
Robert McNally, Chief Financial Officer of
Precision Drilling Corporation

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Precision Drilling Corporation on Form 40-F for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), the undersigned President and Chief Executive Officer of Precision Drilling Corporation, hereby certifies, to such officer's knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Precision Drilling Corporation.

By: /s/ Kevin A. Neveu

Kevin A. Neveu, President & Chief Executive Officer
of Precision Drilling Corporation

March 30, 2012

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Precision Drilling Corporation on Form 40-F for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), the undersigned Chief Financial Officer of Precision Drilling Corporation, hereby certifies, to such officer's knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Precision Drilling Corporation.

By: /s/ Robert McNally
Robert McNally, Chief Financial Officer
of Precision Drilling Corporation

March 30, 2012

Annual Information Form

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CORPORATE STRUCTURE

The Corporation

Precision Drilling Corporation ("**Precision**" or the "**Corporation**") was formed by amalgamation under the *Business Corporations Act* (Alberta). Effective June 1, 2010, pursuant to a statutory plan of arrangement (the "**Arrangement**"), Precision converted from an income trust, known as Precision Drilling Trust (the "**Trust**"), to a corporate entity. Holders of trust units of the Trust and exchangeable limited partnership units of Precision Drilling Limited Partnership received one common share of the Corporation (a "**Common Share**") for each such unit held. The Common Shares trade on the Toronto Stock Exchange ("**TSX**") under the trading symbol "PD" and on the New York Stock Exchange (" **NYSE**") under the trading symbol "PDS". For a further description of the Arrangement, see "Three-Year History – 2010 – The Arrangement".

The head and registered office of the Corporation is located at 800, 525 – 8th Avenue S.W., Calgary, Alberta, T2P 1G1, telephone (403) 716-4500, facsimile (403) 264-0251, email info@precisiondrilling.com and website www.precisiondrilling.com.

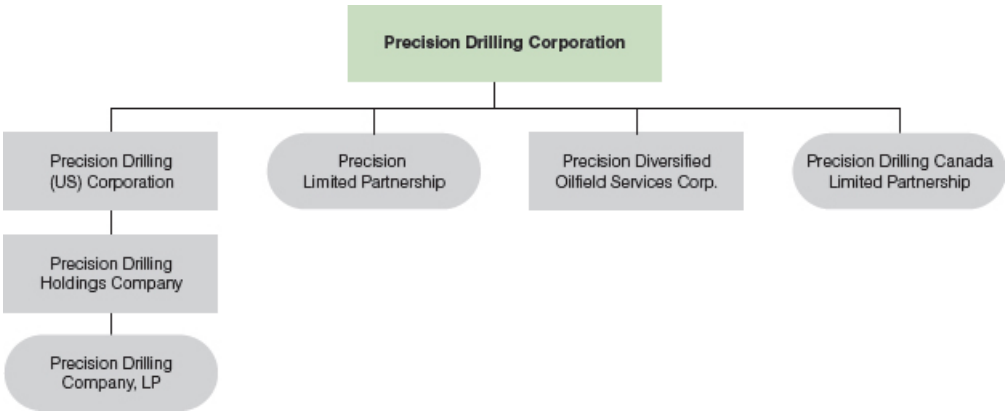
Unless the context otherwise requires, all references in this Annual Information Form to "Precision" or to the "Corporation" for periods after the effective date of the Arrangement refer to Precision Drilling Corporation and, where the context requires, includes Precision Drilling Corporation and all of its consolidated subsidiaries and any partnership of which Precision and/ or its subsidiaries are the partners and for periods prior to the effective date of the Arrangement refer to the Trust and, where the context requires, includes the Trust and all of its consolidated subsidiaries and any partnerships of which the Trust and/or its subsidiaries were the partners prior to the completion of the Arrangement.

Unless otherwise stated, all references in this Annual Information Form to sums of money are expressed in Canadian Dollars.

INTERCORPORATE RELATIONSHIPS

Organizational Structure of the Corporation

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



The following table sets forth the name, the percentage of voting securities owned, directly or indirectly, by the Corporation and the jurisdiction of incorporation, continuance or formation of the Corporation's material subsidiaries as of December 31, 2011. For simplification, this table omits wholly-owned subsidiaries that are not material.

Name of Subsidiary or Partnership	Percentage of voting securities (directly or indirectly)	Jurisdiction of Incorporation, Continuance or Formation (as applicable)
Precision Limited Partnership	100% (Directly and Indirectly)	Alberta
Precision Drilling Canada Limited Partnership	100% (Directly and Indirectly)	Alberta
Precision Diversified Oilfield Services Corp.	100% (Directly)	Alberta
Precision Drilling (US) Corporation	100% (Directly)	Texas
Precision Drilling Holdings Company	100% (Indirectly)	Nevada
Precision Drilling Company, LP	100% (Indirectly)	Texas

GENERAL DEVELOPMENT OF THE BUSINESS

Precision is an independent North American provider of oil and natural gas drilling and drilling-related services and products. The Corporation specializes in providing onshore drilling services in most major conventional and unconventional oil and natural gas basins in Canada and the United States and has an emerging presence internationally. Precision also provides well servicing and ancillary wellsite products and services in Canada.

Three-year History

2011

Capital Expenditures and Rig Fleet Upgrades. Precision placed 19 newly constructed or "new build" Super Series rigs into service in 2011 under previously negotiated contracts, including seven Precision Super Single rigs in Canada and one Precision Super Single and 11 Super Triple rigs in the United States. These rig deliveries were part of Precision's property, plant and equipment capital expenditure program which totaled $726 million in 2011, including $455 million for expansion capital and $271 million for the maintenance and upgrade of existing assets and infrastructure. Expansion and upgrade capital includes the purchase of long-lead items for the Corporation's capital inventory which includes top drives, drill pipe, control systems, engines and other long-lead items, which can be used for North American or international new build rig opportunities and rig tier upgrades.

Rig Decommissioning. In December 2011, Precision announced the decommissioning of 36 drilling rigs, including 19 in Canada and 17 in the United States, and 13 well servicing rigs in Canada. The drilling rigs were all Tier 3 (as defined hereinafter), primarily mechanical, lower horsepower units without advanced technology. Certain component parts of the decommissioned rigs will be used in ongoing operations. Precision took a non-cash, pre-tax charge to earnings of $115 million in the fourth quarter of 2011 in connection with the decommissioning.

U.S. Senior Note Offering. On July 29, 2011, the Corporation completed its offering (the "**2021 Note Offering**") of US$400 million aggregate principal amount of 6.50% senior unsecured notes due 2021 (the "**2021 Notes**"). The net proceeds from the 2021 Note Offering are being used by the Corporation to fund its capital expenditure program and for general corporate purposes. See "Description of Capital Structure – Material Debt".

Credit Facility Amendment. On June 19, 2011, Precision entered into an amendment to the Secured Facility (as defined hereinafter) which: (i) reduced the margins and rates applicable to interest rates and fees payable under the Secured Facility; (ii) extended the maturity date of the Secured Facility to November 17, 2015 from November 17, 2013; (iii) increased the amount of unsecured indebtedness permitted to be incurred under the Secured Facility; (iv) increased the consolidated senior debt to EBITDA ratio from 2.5:1 to 3:1; and (v) increased the consolidated total debt to EBITDA ratio from 3.5:1 to 4:1. See "Description of Capital Structure – Material Debt".

Canadian Senior Note Offering. On March 15, 2011, the Corporation completed its offering (the "**2019 Note Offering**") of $200 million aggregate principal amount of 6.50% senior unsecured notes due 2019 (the "**2019 Notes**") in a private placement offering to Canadian investors. The net proceeds and cash on hand were in effect used to repay the $175 million 10% senior unsecured notes (the "**10% Senior Note**") issued to Her Majesty the Queen in Right of the Province of Alberta, represented by Alberta Investment Management Corporation ("**AIMCo**"). The aggregate repayment of approximately $204 million for the 10% Senior Note included $175 million in principal, accrued interest and a make-whole premium. The make-whole premium of $27 million was a charge to earnings in the first quarter of 2011. See "Description of Capital Structure – Material Debt".

Tax Reassessment. In February 2011, Precision received a notice of reassessment from the Canada Revenue Agency (" **CRA**") for federal tax and interest relating to a transaction that occurred in the 2005 tax year. Precision objected to the reassessment and, during 2011, reached agreements with the CRA and Alberta Finance to resolve the results of the prior year audit. Based on the settlement agreements, Precision received income tax reassessments from the CRA and Alberta Finance totaling $37 million in income tax plus interest of $13 million. As part of the settlement agreements, Precision waived all rights to appeal the reassessments.

Transition to International Financial Reporting Standards. As of January 1, 2011, Precision began preparing its financial statements under International Financial Reporting Standards ("**IFRS**") and future financial statements will be prepared in compliance with IFRS as if Precision had always followed these standards. The transition to IFRS did not materially impact debt covenants or affect cash flows. Except for changes to management reports, no significant changes to internal controls over financial reporting or disclosure were required as a result of the transition to IFRS.

Directional Drilling. On March 29, 2011, Precision announced the closing of the acquisition of Drake Directional Drilling, LLC and Drake MWD Services, LLC which provide directional drilling and measurement while drilling ("**MWD**") services in Texas, Louisiana, Oklahoma and Colorado. On September 12, 2011, Precision announced the closing of the acquisition of Axis Energy Services Holdings Inc. which provides directional drilling and MWD services, primarily in western Canada.

International Expansion. In the first quarter of 2011, Grey Wolf International opened new offices in Dubai, United Arab Emirates and Bogota, Colombia, and in the fourth quarter contracted three rigs for operations in Saudi Arabia to work on multi-year contracts. Precision delivered these three upgraded rigs from its existing United States rig fleet to Saudi Arabia in the fourth quarter of 2011 and the first quarter of 2012.

2010

Senior Note Offering. On November 17, 2010, the Corporation completed its offering (the "**2020 Note Offering**") of US$650 million aggregate principal amount of 6.625% senior unsecured notes due 2020 (the "**2020 Notes**"). The net proceeds from the 2020 Note Offering were used to repay, in full, the outstanding indebtedness under the Corporation's then existing secured credit facility. See "Description of Capital Structure – Material Debt".

Credit Facility. In connection with the closing of the 2020 Note Offering, Precision terminated its then existing secured credit facilities and entered into a US$550 million secured revolving credit facility (the "**Secured Facility**"). See "Description of Capital Structure – Material Debt".

The Arrangement. On June 1, 2010, the Trust converted from an income trust structure to a corporate structure pursuant to the Arrangement. The Arrangement was approved at the annual and special meeting of the holders of trust units ("**Trust Unitholders**") of the Trust and the holders of exchangeable limited partnership units ("**Exchangeable LP Unitholders**", and together with the Trust Unitholders, the " **Unitholders**") of Precision Drilling Limited Partnership ("**PDLP**") held on May 11, 2010, with over 99% of the votes cast by Unitholders being voted in favor of the Arrangement. On May 12, 2010, the Alberta Court of Queen's Bench granted the final order required in connection with the Arrangement. Pursuant to the Arrangement, former Trust Unitholders received one Common Share for each trust unit of the Trust ("**Trust Unit**") held and former Exchangeable LP Unitholders received one Common Share for each exchangeable limited partnership unit of PDLP ("**Exchangeable LP Unit**") held.

2009

Integration of Grey Wolf. Precision strengthened its presence in the United States oil and natural gas drilling market by substantially completing the integration of Grey Wolf, Inc. ("**Grey Wolf**"), a United States-based land drilling contractor acquired by Precision on December 23, 2008 (the "**Grey Wolf Acquisition**"). The integration of Precision and Grey Wolf entailed realigning personnel, implementing a new organizational structure and financial systems and aligning vertical support systems in the United States, particularly supply chain and equipment management.

Rig Decommissioning. In December 2009, Precision announced the decommissioning of 38 drilling rigs including 26 in the Canadian fleet and 12 in the United States. All were Tier 3 rigs, primarily mechanical, lower horsepower units without advanced technology. Certain component parts of the decommissioned rigs will be used in ongoing operations. Precision also decommissioned 30 service rigs and nine snubbing units. Precision took a non-cash, pre-tax charge to earnings of $82 million in the fourth quarter of 2009 in connection with the decommissioning.

Refinancing Activities. Precision completed activities that enabled it to repay its then existing unsecured credit facility, entered into in connection with the Grey Wolf Acquisition, to reduce total debt, lower its debt to capitalization ratio and significantly reduce annual interest expense.

- An offering of 46 million Trust Units was completed on February 18, 2009, which provided gross proceeds of US$172.5 million. The proceeds were used to repurchase the outstanding convertible notes assumed in conjunction with the Grey Wolf Acquisition.

- On April 22, 2009, the Trust completed a private placement of 35,000,000 Trust Units at a price of $3.00 per Trust Unit and warrants to acquire 15,000,000 Trust Units at an exercise price of $3.22 per Trust Unit within five years of the date of issue (the "**Warrants**") for aggregate proceeds of approximately $105 million. In addition, Precision completed a private placement of the 10% Senior Note. The purchaser of the Trust Units, Warrants and the 10% Senior Note was AIMCo. The proceeds from the issuance of the Trust Units, Warrants and the 10% Senior Note were used to reduce the obligations of Precision under its then existing unsecured credit facility. See "Description of Capital Structure – Material Debt".

- A rights offering that allowed Unitholders to purchase Trust Units at a price of $3.00 per Trust Unit was completed on June 3, 2009, for gross proceeds of $103 million, for a total of 34,441,950 additional Trust Units outstanding.

Debt Repayment. During the fourth quarter of 2009, the Trust reduced its outstanding debt by US$81 million through voluntary debt prepayments of US$75 million and a quarter-end prepayment of US$6 million. As a result of the voluntary prepayments, Precision realized additional non-cash pretax expense in the quarter of $8 million related to the amortization of deferred financing costs. The financing activities reduced Precision's blended interest rate to approximately 8.4% and reduced Precision's cash interest expense and overall leverage.

The refinancing activities described above enabled the repayment and retirement of Precision's then existing bridge loans of $296 million (US$235 million).

Other Events. On January 2, 2009, Precision transferred substantially all of the assets of its Precision Drilling (" **Precision Drilling**"), Rostel Industries ("**Rostel Industries**") and Columbia Oilfield Supply (" **Columbia Oilfield Supply**") divisions to Precision Drilling Canada Limited Partnership in consideration for a 99.9% limited partnership interest in Precision Drilling Canada Limited Partnership. The general partner is a wholly-owned subsidiary, Precision Diversified Oilfield Services Corp., which holds the remaining 0.1% interest. Precision Drilling Canada Limited Partnership carries on the businesses which comprise Precision's Contract Drilling Services segment. See "Description of the Business of Precision – Contract Drilling Services Segment".

On October 31, 2009 Precision Drilling Oilfield Services Inc., a wholly-owned subsidiary of Precision which commenced drilling operations in the United States prior to the Grey Wolf Acquisition, merged with and into Precision Drilling Company, LP.

DESCRIPTION OF THE BUSINESS OF PRECISION

General

Precision's continuing operations are carried out in two segments: Contract Drilling Services and Completion and Production Services. In Canada, the Contract Drilling Services segment includes land drilling services, directional drilling services, procurement and distribution of oilfield supplies and the manufacture and refurbishment of drilling and service rig equipment, and the Completion and Production Services segment includes service rigs for well completion and workover services, snubbing services, camp and catering services, wastewater treatment services and the rental of oilfield surface equipment, tubulars, well control equipment and wellsite accommodations. In the United States, the Contract Drilling Services segment includes land drilling services, directional drilling services, turnkey drilling services, procurement and distribution of oilfield supplies and trucking services for the movement of Precision rigs and the Completion and Production Services segment includes snubbing services and rental of wellsite accommodations and drilling camps. Internationally, Precision is focused on land drilling services.

Precision's revenue, prepared under IFRS for 2011 and 2010 and previous Canadian generally accepted accounting principles for 2009, by business segment from continuing operations is illustrated in the following table:

	Years ended December 31,		
Stated in thousands of Canadian dollars	**2011**	**2010**	**2009**
Contract Drilling Services	$1,632,037	$1,186,007	$1,015,041
Completion and Production Services	330,225	255,827	201,877
Inter-segment Eliminations	(11,235)	(12,181)	(19,472)
Total Revenue	**$1,951,027**	**$1,429,653**	**$1,197,446**

Contract Drilling Services Segment

The Contract Drilling Services segment comprises a number of vertically integrated subsidiaries operating in the United States, Canada and internationally. These subsidiaries are engaged primarily in providing onshore well drilling services to exploration and production companies in the oil and natural gas industry. In Canada, the United States and internationally as at December 31, 2011, the Contract Drilling Services segment comprised:

- 188 land drilling rigs in Canada;
- 143 land drilling rigs in the United States;
- three land drilling rigs in or being deployed to Saudi Arabia
- two land drilling rigs in Mexico;
- one land drilling rig in Colombia;
- approximately 65 directional drilling job capacity in Canada and United States;
- engineering, manufacturing and repair services primarily for Precision's operations; and
- centralized procurement, inventory and distribution of consumable supplies primarily for Precision's Canadian, United States and Mexico operations.

Precision Drilling

Overview. At the end of 2011, Precision operated a versatile fleet of 337 land rigs capable of drilling a range of shallow to very deep or extended-reach wells in Canada, the United States and internationally.

In Canada, Precision owned and operated the largest fleet of land drilling rigs at December 31, 2011. It actively marketed 188 drilling rigs located throughout western Canada, which accounted for approximately 24% of the industry's fleet of 786 drilling rigs.

In the United States, at the end of 2011, Precision operated 143 land drilling rigs, the fourth largest fleet, representing approximately 5% of the country's estimated 2,885 total marketed land drilling rigs.

Internationally, Precision had two land drilling rigs operating in Mexico, three land drilling rigs in or being deployed to Saudi Arabia and one idle rig in Colombia at year-end 2011.

Drilling Contracts. Contract terms offered by Precision are generally dependent on the complexity and risk of operations, on-site drilling conditions, type of equipment used and the anticipated duration of the work to be performed. Drilling contracts can be for single or multiple wells and may vary in duration from a day or two on shallow single-well applications to multiple-year, multiple-well drilling programs. Term drilling contracts typically provide for fixed utilization rates for a minimum six-month duration, early termination penalties, cost escalations and contract renewal options. Short-term contracts to provide drilling rigs on a well-to-well basis are typically subject to termination by the customer on short notice or with little or no penalty. Precision had term contracts in place for an average of 125 drilling rigs in 2011, 45 in Canada and 80 in the United States.

Precision primarily markets its drilling rigs on a regional basis through sales and marketing personnel. Contracts to drill wells are obtained either through competitive bidding or as a result of relationships and negotiations with customers.

Oil and natural gas well drilling contracts are performed on a daywork or "turnkey" basis. On a daywork basis, Precision contracts to provide a drilling rig with required personnel and the customer supervises the drilling of the well. Precision charges the customer a fixed rate per day regardless of the number of days needed to drill the well. Daywork contracts usually also provide for a reduced day rate (or a lump sum amount) to mobilize the rig to the well location, to rig-up and rig-down on location and to demobilize the rig. On a daywork basis, 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). Under a turnkey contract, Precision contracts to drill a well to an agreed depth, under specified conditions, for a fixed price. Compared to daywork contracts, turnkey contracts involve a higher degree of risk to Precision and, accordingly, normally provide greater profit or loss potential. See "Risk Factors – There are risks associated with turnkey drilling operations which could adversely affect Precision's business".

In Canada, Precision's contracts have been carried out almost exclusively on a daywork basis. In the United States, the majority of Precision's contracts have been carried out on a daywork basis with the exception of approximately 3%, based on rig utilization in 2011, which were performed on a turnkey basis. Precision's newly constructed or new build drilling rigs generally have term contracts in place prior to the rig being completed and in many cases have a two-year to five-year term contracts in place at the time construction commences.

Competition. The land drilling industry is highly competitive and fragmented with the top ten providers owning only approximately 50% of the marketed United States rig fleet. The market for land drilling rigs is increasingly differentiated on the basis of technology. Precision's Tier 1 and Tier 2 rigs, which represent 80% of its fleet, typically experience higher utilization levels and more stable dayrates than Tier 3 rigs.

Drilling Fleet Capabilities. Precision's rigs are categorized as Tier 1, Tier 2 and Tier 3. The tiers indicate which rigs are suited to meet more complex drilling requirements and are generally more mobile. Precision's fleet of 337 rigs at the end of 2011 comprised 144 Tier 1 rigs, 126 Tier 2 rigs and 67 Tier 3 rigs.

Tier 1, including Super Series, drilling rigs are high performance, of innovative design and manufacture, capable of drilling directionally or horizontally, are highly mobile requiring fewer trucking loads and often include the following capabilities: highly mechanized tubular handling equipment; integrated top drive or top drive adaptability; advanced mechanical, silicone controlled rectifier ("**SCR**") and AC power distribution and control efficiencies; electronic control of the majority of operating parameters; specialized drilling tubulars; and high-capacity mud pumps. Tier 1 drilling rigs are better suited to meet the challenges of complex customer resource exploitation requirements in the North America shale and unconventional plays.

Tier 2 drilling rigs are high performance rigs where new equipment and modifications have been applied to improve performance and enhance directional and horizontal drilling capability. Improvements include: some mechanization of tubular handling equipment; top drive adaptability; mechanical or SCR type power systems; increased hookload and or racking capabilities; upgraded power generating, control systems and other major components; and high-capacity mud pumps. Tier 2 rigs are generally less mobile than Tier 1 rigs.

Tier 3 includes rigs which provide an acceptable level of performance for certain drilling requirements but would require major equipment upgrades to meet the criteria of a Tier 2 or Tier 1 rig. Tier 3 rigs are typically conventional mechanical rigs with no automation and lower pumping capacity, and Precision believes that developments in the land drilling industry will result in the virtual obsolescence of Tier 3 rigs in the North American markets over the near term.

Precision's rigs are capable of drilling to depths in excess of 9,000 metres or 30,000 feet, are rated up to 4,000 horsepower and can drill virtually all types of onshore conventional and unconventional oil and gas wells in North America. In 2011, Precision had a footprint in virtually all of the large resource plays in Canada and the United States, including the Horn River, Montney, Cardium, Viking and Lower Shaunovan formations in Canada and the Bakken, Barnett, Haynesville, Marcellus, Eagle Ford and Granite Wash resource plays in the United States. A list of Precision's contract drilling rigs, including detailed inventory and layout specifications, is available at www.precisiondrilling.com.

Key factors which contribute to lower customer well costs include low unplanned mechanical downtime, which is managed through preventive maintenance programs, detailed inspection processes, strategically placed spare equipment, supply chain management, continuous equipment upgrades, and efficient use of non-productive time that includes moving, rig-up and rig-out time, which is minimized by decreasing the number of move loads per rig, using lighter move loads, and using mechanized equipment for safer and quicker rig component connections.

Directional Drilling

Directional drilling entails the use of specialized tubulars and drill string components to establish and maintain the necessary well trajectory to achieve a desired subsurface location of the well in relation to the surface location. Directional equipment includes mud motors which are hydraulically driven by the drilling fluid to rotate the drill bit and MWD systems which monitor wellbore trajectory and formation characteristics in real time while drilling is in progress. At the end of 2011, Precision had approximately 65 directional drilling job capacity in Canada and the United States. In addition to operational, technical and maintenance facilities in Canada and the United States, directional drilling is also supported by centres in Calgary, Alberta and Houston, Texas for real-time management of directional and horizontal drilling operations in the field.

Grey Wolf International

Grey Wolf International is the platform for Precision's entry into the international oil and gas drilling and workover market. The nature of international oilfield service operations involves relatively long sales cycles with bidding periods, contract award periods and rig mobilization periods measured in months. Grey Wolf International is actively exploring opportunities in various international markets.

In October 2011, Grey Wolf International entered multi-year daywork drilling contracts for three land drilling rigs to operate in Saudi Arabia. All three rigs were refurbished to contract specifications at Precision's facilities in Texas. By the end of 2011, one of the rigs had been delivered to Saudi Arabia and the other two were still being deployed. Grey Wolf International also continues to operate two drilling rigs under contracts with a major service provider in Mexico. In early 2011, Precision opened regional offices in Dubai, United Arab Emirates and Bogota, Colombia.

Rostel Industries

Rostel Industries manufactures custom drilling rigs and manufactures and refurbishes drilling rig and service rig components. Rostel Industries is fundamental to Precision's vertical integration, as approximately 93% of Rostel Industries' revenues in 2011 were related to Precision business units. The in-house ability to repair or provide new components for either drilling or service rigs also improves the efficiency and reliability of Precision's fleets. Rostel Industries markets specialized services to the energy services industry, including inspection and certification of critical drilling components including overhead equipment, well control equipment and handling tools. Rostel Industries' expertise includes an in-house engineering group to design and certify equipment. Rostel Industries also designs and builds a significant portion of the components for Precision's Super Single drilling rigs and seeks to develop products that can be applied to new rigs and retro-fitted to improve the versatility of many of Precision's existing rigs.

Columbia Oilfield Supply and Grey Wolf Supply

Columbia Oilfield Supply in Canada and Grey Wolf Supply in the United States are general supply stores that procure, package and distribute large volumes of consumable oilfield supplies. The two supply warehouses achieve economies of scale through bulk purchasing and standardized product selection and then coordinate distribution to Precision rig sites. Columbia Oilfield Supply and Grey Wolf Supply play a key role in supply chain management as approximately 99% of their oilfield supply activities support Precision operations in North America.

Columbia Oilfield Supply and Grey Wolf Supply contribute to Precision's competitiveness by reducing the administrative workload on operations staff in the field.

Completion and Production Services Segment

The Completion and Production Services segment comprises a number of subsidiaries providing completion and workover services and ancillary services and equipment rentals to oil and natural gas exploration and production companies primarily in Canada. In May 2010, the snubbing service business, formerly known as Live Well Service, was combined with Precision Well Servicing. At December 31, 2011, Precision's Completion and Production Services segment comprised:

- 189 well completion and workover service rigs in Canada;
- 17 snubbing units in Canada and one snubbing unit in the United States;
- approximately 11,100 oilfield rental items including well control equipment, surface equipment and specialty tubulars in Canada;
- 232 wellsite accommodation units in Canada and 28 in the United States;
- 86 small-flow and four large-flow wastewater treatment units and three potable water production units in Canada; and
- 56 drilling camps and two base camps in Canada and four drilling camps in the United States.

Precision Well Servicing

Precision Well Servicing provides customers with well servicing rigs for a complete range of oil and natural gas well services including completion, workover, abandonment, well maintenance, well re-entry preparation, snubbing and most recently, coil-tubing service rigs. The Precision Well Servicing rig fleet is deployed throughout western Canada. Well servicing jobs are typically short, and preferably during daylight hours, so the ability of a service rig to be close to customer demand and to move quickly from one site to another is critical. Well servicing requires its own unique skill set and crews must deal with the potential dangers and safety concerns of working with pressurized wellbores.

At the end of 2011, Precision Well Servicing had a Canadian industry market share of approximately 18% with a fleet of 189 service rigs, the largest in western Canada, compared to a Canadian industry fleet average of approximately 1,050 service rigs. For Precision Well Servicing, oil and gas well workovers and abandonments accounted for approximately 83% of total activity in 2011 compared to approximately 75% in 2010 and new well completions accounted for approximately 17% of total activity in 2011 compared to approximately 25% in 2010.

Rig Fleet. Operating features of the Precision Well Servicing rig fleet are detailed on Precision's website at www.precisiondrilling.com. The configuration of the Precision Well Servicing fleet as at December 31, 2011, is illustrated in the following table:

Type of Service Rig		Horsepower	Total
Single	Freestanding mobile	150-400	90
Double	Mobile	250-550	19
	Freestanding mobile	200-550	40
	Skid	300-860	22
Slant	Freestanding mobile	250-400	18
Total			**189**

Types of Activities. Well servicing operations have two distinct functions – completions and workovers. For a completion operation, the customer often will contract a small, specialized service rig and crew to take over from a larger, more expensive drilling rig to prepare a newly drilled well for initial production by working jointly with other services to open the producing zones and stimulate the producing zones to improve productivity. Completion activities may require a few days to several weeks to complete depending on well depth and complexity. In contrast, workover services are generally provided according to preventive maintenance schedules or on a call-out basis when a well needs major repairs or modifications. Workover services generally involve remedial work such as repairing or replacing equipment in the well, enhancing production, re-completing a new producing zone, recovery of lost equipment or abandoning the well and may require a few days to several weeks to complete depending on the extent of the repair or modification to be performed. 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. A well for some heavy oil and bitumen production could require many workovers during its lifecycle.

Demand and Rates. Precision Well Servicing typically charges its customers an hourly rate for its services based on such considerations as market demand in the region, the type of rig and the equipment required. 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 existing active wells, their age and their producing characteristics. Consequently, demand for completion services is generally more volatile than workover services.

Snubbing Services. Precision Well Servicing markets 12 portable hydraulic rig-assist snubbing units and five self-contained snubbing units in western Canada and one self-contained snubbing unit in the United States. Snubbing units are equipped with specialized snubbing devices which allow tubing to be installed in or removed from a well, or "snubbed", while the well is under pressure and production has been suspended.

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 production on natural gas wells. Snubbing units perform certain workover and completion activities without neutralizing the well, as opposed to traditional well servicing operations that require pressure in a well to be neutralized using fluids which may impair production in order to safely perform services.

Precision Rentals

Precision Rentals provides approximately 11,100 pieces of oilfield rental equipment from five operating centers and 11 stocking points located throughout western Canada, supported by a technical centre in central Alberta. Most exploration and production companies do not own the specialty equipment used in oil and natural 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 distinct product categories: surface equipment, including drilling and production tanks and other fluid handling equipment; tubular equipment, such as specialty drill string tubulars; well-control equipment, comprising blowout preventers and diverter systems; and wellsite accommodations, which comprise fully equipped units that provide on-site office and lodging for field personnel. In 2011, the 86 small-flow wastewater treatment units developed by Terra Water Systems for remote work sites were transferred to and are now marketed by Precision Rentals.

LRG Catering

LRG Catering provides food and accommodation to personnel working at the wellsite, typically in remote locations in western Canada. LRG Catering has 56 drill camps and two base camps in western Canada and four drill camps in the United States. LRG Catering's mobile camps each include five or six building units that typically accommodate 20 to 25 rig crew members and other personnel and, if required, individual dormitory units that accommodate up to 45 additional personnel are also available. LRG Catering has also configured several of its camps and dormitories to provide housing and meals for a 200-man base camp and a 500-man base camp on separate major projects in western Canada. As the oil and gas industry moves to more remote locations in search of new reserves, there is demand for crews to stay near the worksite, often in camps, throughout the duration of a drilling program. LRG Catering 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.

Terra Water Systems

Terra Water Systems provides portable wastewater handling, treatment, and disposal facilities at remote sites. The facilities offer customers an environmentally sound solution to treating wastewater, eliminating the traditional tank-and-haul process that raises concerns regarding the timing, hauling and disposal of effluent.

In addition to the small-flow wastewater treatment units transferred to Precision Rentals in 2011, Terra Water Systems has four large-flow wastewater treatment plants and three potable water production plants that are used in base camp and other large remote work site markets in western Canada. System management for each plant facility includes biweekly service visits by technical staff and sampling and independent laboratory effluent testing. With a focus on ease of operation, treated effluent quality and elimination of odors, Terra Water System's wastewater treatment plants align with existing environmental, health and safety regulations for surface release of treated wastewater.

Supplemental operational information

Health, Safety and Environment

Precision has a long-standing commitment to health, safety and the environment in all aspects of its operations, a commitment that is fostered through its "Target Zero" vision. Target Zero promotes a culture that never accepts an injury to a Precision employee and encourages the recognition and reduction of risks at job sites to reach the goal of zero injuries. Precision remains focused toward the safety of its employees – a core value at Precision.

In 2011, 65% of Precision's drilling rigs and 80% of its service rigs worked without a recordable injury and 85% of its drilling rigs and 97% of its service rigs were lost time free. Overall in 2011, Precision's total hours worked increased 21%, recordable injury frequency increased 4% and the lost time accident frequency decreased 29% compared to 2010.

Precision develops solutions to manage the loss of energy and resources. Rig designs incorporate high efficiency diesel engines which meet applicable regulatory emission specifications and AC electric power generation, distribution and control systems which incorporate variable frequency drive technologies to increase efficiency and reduce fuel consumption. Engines are equipped with advanced muffler systems to reduce noise, variable pitch fans on engine radiator systems reduce horsepower requirements and rig drawworks also use regenerative braking to eliminate brake noise produced by conventional band brake systems. Rigs also use alternative power sources for heat generation in cold operating conditions and alternative fuel types for generating power. Where applicable, thermal insulation is applied to rig buildings to reduce winter heating load requirements and rigs are designed for heat generation efficiency in cold weather by directing air flow from radiators on power generation engines to heat surrounding rig buildings. Precision continuously reviews its rig designs and rig components and uses advanced technologies to improve life cycles, reduce energy and improve safety and operating efficiency.

Precision is aware of the critical importance that must be placed on climate change and impact on the environment. Rigs are designed for high moving efficiency which reduces the number of trucks required to relocate a rig to a new customer site and once on location, Precision's "reduced footprint" design and construction decreases the surface land area required for the rig to operate. Where customers require high well density such as heavy oil drilling programs, Precision's pad rig design not only reduces the surface area required to operate, it also eliminates the need for trucks to move between well centers. Precision has also implemented its own spill containment devices for use under equipment which minimize potential spills around areas of high environmental exposure on the drill site.

Precision is committed to continue developing solutions that support a sustainable society, including research on alternative methods for fuel types for power and heat generation, noise abatement, carbon emissions and waste energy recovery systems.

Employees

Precision had approximately 7,813 employees at the end of 2011, including 1,257 in salaried positions and 6,556 in hourly positions. Changes in drilling activity due to seasonality or economic conditions result in more dramatic changes in hourly employees than salaried employees. Due to the cyclical nature of oilfield service work and the resulting uncertainty of continuing employment as well as generally higher utilization levels over the past decade, there is a highly competitive environment for experienced personnel in the oilfield services industry.

Precision's performance relies on experienced, well-trained personnel. Precision invests in processes and systems that lead to employee development, leadership and retention. Individuals are actively developed within a talent management system focused on developing, nurturing and retaining people in key positions as well as top performers and potential leaders for the future. These programs include skill development around leadership, communication and corporate values. Precision also has remuneration systems to retain experienced field personnel during all market cycles, focused recruitment initiatives and a performance management system which links compensation to the achievement of specific corporate and individual goals.

Precision measures performance excellence through its safety record and reputation to attract and retain employees as industry manpower shortages are often experienced in peak operating periods. Emphasis is placed on retention of experienced employees in driller, rig manager and field superintendent positions and Precision's retention rates for these key positions exceeded 85% in Canada and 86% in the United States in 2011.

RECORD OF CASH PAYMENTS

There have been no dividends paid on the Common Shares to-date. While Precision does not currently anticipate paying any dividends on its Common Shares, Precision's board of directors (the "Board of Directors") reviews its dividend policy on a regular basis. Any decision to pay dividends on the Common Shares in the future will be made by the Board of Directors on the basis of Precision's earnings, cash flows, financial requirements and other relevant conditions existing at such future time.

The Trust historically paid cash distributions until they were suspended on February 9, 2009. The following table sets forth the distributions (in Canadian dollars) paid or declared payable by the Trust on each Trust Unit for the three most recently completed financial years:

Distribution Type	Record Date	Payment Date	Amount per Trust Unit
2009			
Regular Distribution	January 30, 2009	February 17, 2009	$0.040

The following table sets forth the amount of payments (in Canadian dollars) paid or declared payable by PDLP on each Exchangeable LP Unit for the three most recently completed financial years:

Payment Type	Record Date	Payment Date	Amount per Exchangeable LP Unit
2009			
Regular Payment	January 30, 2009	February 17, 2009	$0.040

DESCRIPTION OF CAPITAL STRUCTURE

Description of Common Shares

As of December 31, 2011, there were 276,081,797 Common Shares issued and outstanding and as at March 1, 2012, there were 276,124,565 Common Shares issued and outstanding.

The Articles of Amalgamation of the Corporation provide that the Common Shares may be issued in an unlimited number. Each Common Share entitles the holder thereof to one vote at any meeting of the holders of the Common Shares (the "**Shareholders**"), or in respect of any written resolution of Shareholders, and, subject to the prior rights and privileges attaching to any other class of shares of the Corporation, represents the right to receive any dividend declared by the Corporation and to receive the remaining property and assets of the Corporation upon dissolution.

Meetings of Shareholders will be called and held annually for, among other things, the election of the Board of Directors and the appointment of the auditors of the Corporation. A special meeting of Shareholders may be convened at any time and for any purpose by the Board of Directors and must be convened, except in certain circumstances, if requisitioned in writing by the holders of not less than 5% of all votes entitled to be voted at a meeting of Shareholders. The requisition shall state the business to be transacted at the meeting and shall be sent to each director and to the registered office of the Corporation.

Only Shareholders of record may attend and vote at meetings of Shareholders either in person or by proxy and a proxyholder need not be a Shareholder. Two persons present and each holding or representing by proxy at least one issued share of the Corporation shall be a quorum at any meeting of Shareholders for the election of a chairman of the meeting and for the adjournment of the meeting to a fixed time and place but not for the transaction of any other business. For all other purposes two persons present and holding or representing by proxy 5% of the Common Shares entitled to vote at the meeting shall be a quorum.

Notwithstanding the foregoing, if the Corporation has only one Shareholder, or one Shareholder holding a majority of the shares entitled to vote at the meeting, that Shareholder present in person or by proxy constitutes a meeting and a quorum for such meeting.

The By-laws of the Corporation contain provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Shareholders in accordance with the requirements of applicable laws.

Warrants

On April 22, 2009 the Corporation issued 15,000,000 purchase warrants pursuant to a private placement. Each Warrant is exercisable into one Common Share of the Corporation at a price of $3.22 per Common Share for a period of five years from the date of issue. As at December 31, 2011, no Warrants have been exercised. See "Three-Year History – 2009 – Financing Activities".

Shareholder Rights Plan

In connection with the Arrangement, the Unitholders approved the adoption of a shareholder rights plan for the Corporation (the " **Shareholder Rights Plan**"). The Shareholder Rights Plan was entered into between the Corporation and Computershare Trust Company of Canada on June 1, 2010. Pursuant to the Shareholder Rights Plan, one right (a "**Right**") was issued by the Corporation in respect of each Common Share that was outstanding at the close of business on June 1, 2010. One Right will also be issued for each additional Common Share issued after June 1, 2010, subject to the terms and conditions of the Shareholder Rights Plan.

Description of Preferred Shares

As of December 31, 2011 and March 1, 2012, there were no preferred shares of the Corporation (the " **Preferred Shares**") issued and outstanding.

The Preferred Shares may be issued in one or more series, each series to consist of such number of shares as determined by resolution of the Board of Directors. The Board of Directors, by resolution duly passed before the issue of the Preferred Shares of each series, fix the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series, including, but without in any way limiting or restricting the generality of the foregoing, the rate or amount of cumulative preferential dividends, the date or dates and places of payment thereof, the date or dates from which such preferential dividends shall accrue, the rights and obligations, if any, of the Corporation to purchase the Preferred Shares of such series and to redeem the same, the price and the terms and conditions of any such purchase or redemption, and conversion rights, if any.

The number of Preferred Shares that may be authorized for issuance at any given time can be no more than one half of the issued and outstanding Common Shares at the time of the issuance of such Preferred Shares.

Material Debt

The following is a summary of the material terms of the Secured Facility, the 2020 Notes, the 2019 Notes and the 2021 Notes. Potential investors may refer to copies of the note indenture governing the 2020 Notes (the "**2020 Note Indenture**"), the note indenture governing the 2019 Notes (the "**2019 Note Indenture**"), the note indenture governing the 2021 Notes (the "**2021 Note Indenture**") and the registration rights agreement which relates to the 2021 Notes (the "**Registration Rights Agreement**"), which are available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

The Secured Facility

Overview. In connection with the 2020 Note Offering, the Corporation entered into the Secured Facility with Royal Bank of Canada, Credit Suisse AG, Toronto Branch and a syndicate of certain other lenders. The Secured Facility is a US$550 million extendible revolving term credit facility which is secured by liens on substantially all of the present and future assets of the Corporation and the present and future assets of the Corporation's material United States and Canadian subsidiaries (including subsidiaries that the Corporation designates as "material", collectively, the "**Material Subsidiaries**"). The Secured Facility contains representations and warranties, covenants and events of default customary for transactions of this nature, including financial ratio covenants tested on a quarterly basis. The following is a summary of the material terms of the Secured Facility, as amended.

Amount and Term. The Secured Facility provides senior secured financing of up to US$550 million, with a provision for an increase in the facility of up to an additional US$100 million. The Secured Facility matures on November 17, 2015, with an option on the Corporation's part to request that the lenders extend, at their discretion, the facility to a new maturity date not to exceed four years from the date of the extension request.

Letters of Credit. Letters of credit (including letters of guarantee) are available in United States or Canadian dollars under the Secured Facility in an aggregate amount of up to US$200 million (as a sublimit of the overall commitments).

Interest Rates and Fees. The interest rate on loans that are denominated in United States dollars will, at the Corporation's option, be either a margin over a United States base rate or a margin over LIBOR. The interest rate on loans denominated in Canadian dollars will, at the Corporation's option, be either a margin over the Canadian prime rate or a margin over the Bankers' Acceptance rate; such margins will be based on the then applicable ratio of consolidated total debt to EBITDA (the "**Margin Ratio**").

The Secured Facility also provides for: (a) a standby fee for each lender calculated on the unused amount of its commitment at a percentage based on the applicable Margin Ratio; (b) an issuance fee on the outstanding amount of the letters of credit equal to the margin applicable to LIBOR loans (subject to reduction in fees for non-financial letters of credit); and (c) a fronting fee to be paid to each fronting lender.

Repayment. The Secured Facility contains a requirement that it be repaid in full on November 17, 2015, subject to the optional extension referenced above.

Guarantees and Security. The Corporation and all of its Material Subsidiaries have pledged substantially all of their respective present and future assets, secured by a perfected first priority lien, subject to certain permitted encumbrances, as security for their obligations under the Secured Facility (including obligations to cash management providers, operating lenders and swap providers). In addition, all Material Subsidiaries have guaranteed the Corporation's obligations under the Secured Facility (including those owed to any cash management providers, operating lenders or swap providers).

Upon receiving a corporate credit rating of at least "BBB-" from Standard & Poor's Ratings Services (" **S&P**") and "Baa3" from Moody's Investors Service, Inc., ("**Moody's**") security will, at the Corporation's option, be released (with a corresponding obligation to re-grant security if the rating drops below the above-referenced threshold after such release). Precision currently has a corporate credit rating of "BB+" from S&P and "Ba1" from Moody's.

Certain Covenants and Events of Default. The Secured Facility contains a number of covenants that, subject to certain exceptions, will, among other things, restrict the Corporation's and its Material Subsidiaries' ability to: (i) incur or assume additional indebtedness; (ii) dispose of assets; (iii) make or pay dividends, share redemptions or other distributions; (iv) change their primary business; (v) incur or assume liens on assets; (vi) engage in transactions with affiliates; (vii) enter into mergers, consolidations or amalgamations; and (viii) enter into speculative swap agreements. The Secured Facility also contains customary affirmative covenants and events of default.

The Secured Facility requires compliance with the following financial ratios, each for the most recent four consecutive fiscal quarters: (i) a maximum consolidated senior debt to EBITDA ratio of 3:1; (ii) a maximum consolidated total debt to EBITDA ratio of 4:1; and (iii) a minimum interest coverage ratio of 2.75:1.

At December 31, 2011, Precision had available $25 million and US$15 million under secured operating facilities, of which no amounts had been drawn. Availability of the $25 million facility was reduced by outstanding letters of credit in the amount of $0.5 million. The facilities are primarily secured by charges on substantially all present and future property of Precision and its Material Subsidiaries. Advances under the $25 million facility are available at the banks' prime lending rate, United States base rate, United States LIBOR plus applicable margin or Banker's Acceptance plus applicable margin, or in combination and under the US$15 million facility at the bank's prime lending rate.

2020 Notes

On November 17, 2010, the Corporation completed a US$650 million private placement offering of 6.625% senior unsecured notes. The 2020 Notes were issued and are governed under the terms of the 2020 Note Indenture. The 2020 Notes are denominated in United States dollars and all payments on the 2020 Notes are made in United States dollars.

The net proceeds of the 2020 Note Offering were used to repay all of the outstanding indebtedness under Precision's then existing secured credit facility and for general corporate purposes. The 2020 Notes mature on November 15, 2020, and bear interest at 6.625%, payable in cash semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2011, to the holders of record at the close of business on May 1 or November 1, as the case may be,

immediately preceding the related interest payment date. Interest on the 2020 Notes accrue from and including the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance and interest on the 2020 Notes is computed on the basis of a 360-day year of twelve 30-day months.

Precision may redeem, prior to November 15, 2013, up to 35% of the 2020 Notes with the net proceeds of certain equity offerings at a redemption price equal to 106.625% of their principal amount, plus accrued interest. Prior to December 15, 2016, Precision may redeem the 2020 Notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the December 15, 2016 redemption price plus required interest payments through December 15, 2016 (calculated using the United States Treasury rate plus 50 basis points) over the principal amount of the note. As well, Precision may redeem the 2020 Notes in whole or in part at any time on or after November 15, 2015, and before November 15, 2018, at redemption prices ranging between 103.313% and 101.104% of their principal amount plus accrued interest. Anytime on or after November 15, 2018, the 2020 Notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a 2020 Note will have the right to sell to Precision all or a portion of its 2020 Notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

The indenture governing the 2020 Notes will limit Precision's ability and the ability of certain of its subsidiaries to, among other things: (i) incur additional indebtedness and issue preferred stock; (ii) create liens; (iii) make restricted payments; (iv) create or permit to exist restrictions on Precision's ability or the ability of certain of its subsidiaries to make certain payments and distributions; (v) engage in amalgamations, mergers or consolidations; (vi) make certain dispositions and transfers of assets; (vii) and engage in transactions with affiliates.

The 2020 Notes are general unsecured obligations of Precision and rank senior in right of payment to all future obligations of Precision that are, by their terms, expressly subordinated in right of payment to the 2020 Notes and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

2019 Notes

On March 15, 2011, the Corporation completed a $200 million private placement offering to Canadian investors of 6.50% senior unsecured notes. The 2019 Notes were issued and are governed under the terms of the 2019 Note Indenture. The 2019 Notes are denominated in Canadian dollars and all payments on the 2019 Notes are made in Canadian dollars.

The net proceeds of the 2019 Note Offering and available cash were used to repay the 10% Senior Note. The 2019 Notes mature on March 15, 2019, and bear interest at 6.50%, payable in cash semi-annually in arrears on March 15 and September 15 of each year, commencing on September 15, 2011, to the holders of record at the close of business on March 1 or September 1, as the case may be, immediately preceding the related interest payment date. Interest on the 2019 Notes accrue from and including the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance and interest on the 2019 Notes is computed on the basis of a 360-day year of twelve 30-day months.

Precision may redeem, prior to March 15, 2014, up to 35% of the 2019 Notes with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of their principal amount, plus accrued interest. Prior to March 15, 2015, Precision may redeem the 2019 Notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the March 15, 2015 redemption price plus required interest payments through March 15, 2015 (calculated using the Government of Canada rate plus 100 basis points) over the principal amount of the note. As well, Precision may redeem the 2019 Notes in whole or in part at any time on or after March 15, 2015, and before March 15, 2017, at redemption prices ranging between 103.250% and 101.625% of their principal amount plus accrued interest. Anytime on or after March 15, 2017, the 2019 Notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a 2019 Note will have the right to sell to Precision all or a portion of its 2019 Notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

The indenture governing the 2019 Notes will limit Precision's ability and the ability of certain of its subsidiaries to, among other things: (i) incur additional indebtedness and issue preferred stock; (ii) create liens; (iii) make restricted payments; (iv) create or permit to exist restrictions on Precision's ability or the ability of certain of its subsidiaries to make certain payments and distributions; (v) engage in amalgamations, mergers or consolidations; (vi) make certain dispositions and transfers of assets; (vii) and engage in transactions with affiliates.

The 2019 Notes are general unsecured obligations of Precision and rank senior in right of payment to all future obligations of Precision that are, by their terms, expressly subordinated in right of payment to the 2019 Notes and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

2021 Notes

On July 29, 2011, the Corporation completed a US$400 million private placement offering of 6.50% senior unsecured notes. The 2021 Notes were issued and are governed under the terms of the 2021 Indenture and the Registration Rights Agreement. The 2021 Notes are denominated in United States dollars and all payments on the 2021 Notes are made in United States dollars.

The net proceeds of the 2021 Note Offering are being used to fund Precision's capital expenditure program and for general corporate purposes. The 2021 Notes mature on December 15, 2021, and bear interest at 6.50%, payable in cash semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2011, to the holders of record at the close of business on June 1 or December 1, as the case may be, immediately preceding the related interest payment date. Interest on the 2021 Notes accrue from and including the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance and interest on the 2021 Notes is computed on the basis of a 360-day year of twelve 30-day months. Precision also will pay additional interest to holders of the 2021 Notes in the circumstances described in the Registration Rights Agreement.

Precision may redeem, prior to December 15, 2014, up to 35% of the 2021 Notes with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of their principal amount, plus accrued interest. Prior to December 15, 2016, Precision may redeem the 2021 Notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the December 15, 2016 redemption price plus required interest payments through December 15, 2016 (calculated using the United States Treasury rate plus 50 basis points) over the principal amount of the note. As well, Precision may redeem the 2021 Notes in whole or in part at any time on or after December 15, 2016, and before December 15, 2019, at redemption prices ranging between 103.250% and 101.083% of their principal amount plus accrued interest. Anytime on or after December 15, 2019, the 2021 Notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its 2021 Notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

The indenture governing the 2021 Notes will limit Precision's ability and the ability of certain of its subsidiaries to, among other things: (i) incur additional indebtedness and issue preferred stock; (ii) create liens; (iii) make restricted payments; (iv) create or permit to exist restrictions on Precision's ability or the ability of certain of its subsidiaries to make certain payments and distributions; (v) engage in amalgamations, mergers or consolidations; (vi) make certain dispositions and transfers of assets; (vii) and engage in transactions with affiliates.

The 2021 Notes are general unsecured obligations of Precision and rank senior in right of payment to all future obligations of Precision that are, by their terms, expressly subordinated in right of payment to the 2021 Notes and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

General

As at December 31, 2011, approximately US$550 million (excluding letters of credit of US$22.6 million) was available under the Secured Facility, US$650 million was outstanding under the 2020 Notes, $200 million was outstanding under the 2019 Notes and US$400 million was outstanding under the 2021 Notes.

Credit Ratings

The following information relating to the Corporation's credit ratings is provided as it relates to the Corporation's financing costs, liquidity and operations. Specifically, credit ratings affect the Corporation's ability to obtain short-term and long-term financing and the cost of such financing. Additionally, the ability of the Corporation to engage in certain business activities on a cost effective basis depends on the Corporation's credit ratings. A reduction in the current rating on the Corporation's debt by its rating agencies, particularly a downgrade below current ratings, or a negative change in the Corporation's ratings outlook could adversely affect the Corporation's cost of financing and its access to sources of liquidity and capital.

The following table outlines the credit ratings received by the Corporation:

	Moody's	S&P
Corporate Credit Rating	Ba1	BB+
Senior Secured Bank Credit Facility Rating	Not rated	Not rated
Senior Unsecured Credit Rating (2020 Notes, 2019 Notes and 2021 Notes)	Ba1	BB+

Moody's issuer credit rating is an opinion of the ability of the issuer to honour senior unsecured financial obligations and contracts. S&P's issuer credit rating is a forward-looking opinion about an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. Long-term credit ratings are intended to provide an independent measure of the credit quality of long-term debt.

Moody's credit ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. A rating of "Ba" by Moody's is the fifth highest of nine categories and denotes obligations judged to have speculative elements and are subject to substantial credit risk. The addition of a 1, 2 or 3 modifier after a rating indicates the relative standing within a particular rating category. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of that generic rating category.

S&P's credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality. A credit rating of "BB" by S&P is the fifth highest of ten categories. According to the S&P rating system, an obligor with debt securities rated "BB" is less vulnerable in the near-term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments. The addition of a plus (+) or minus (-) designation after the rating indicates the relative standing within a particular rating category.

The credit ratings assigned by the rating agencies are not recommendations to purchase, hold or sell the debt nor do the ratings comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. Each agency's rating should be evaluated independently of any other agency's rating.

MARKET FOR SECURITIES

Trading Price and Volume of Common Shares

The Common Shares are listed for trading under the symbol “PD” on the TSX and under the symbol “PDS” on the NYSE. The following table sets forth the 2011 monthly price range and trading volumes for the Common Shares for the periods indicated:

	TSX			NYSE		
Period	High ($)	Low ($)	Volume	High (US$)	Low (US$)	Volume
January	10.54	9.45	25,028,497	10.58	9.48	20,082,665
February	11.68	10.15	21,989,454	11.90	10.24	28,313,631
March	13.22	10.32	46,747,852	13.63	10.44	34,212,043
April	14.95	13.08	41,351,340	15.66	13.58	31,409,926
May	15.13	13.00	31,486,237	15.61	13.42	31,969,231
June	15.07	12.44	27,315,804	15.55	12.69	38,586,343
July	17.20	13.33	25,339,109	18.18	13.78	36,728,149
August	16.43	11.17	58,453,657	17.85	11.27	67,219,374
September	13.98	8.63	38,230,953	14.36	8.26	49,757,022
October	12.83	7.98	38,025,095	12.93	7.52	72,003,576
November	12.50	10.22	28,041,667	12.25	9.78	48,571,470
December	12.25	9.60	21,059,973	12.09	9.24	35,761,710

DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

The By-laws of the Corporation provide that the Board of Directors have full, absolute and exclusive power, control, authority and discretion to manage the business and affairs of the Corporation and to do all such acts and things as may be exercised or done by the Corporation.

Directors are elected at each annual meeting of Shareholders to hold office for a term expiring at the close of the next annual meeting. A quorum of the Board of Directors is a majority of the directors then holding office. The Board of Directors may, between annual meetings of Shareholders, appoint one or more additional directors to serve until the next annual meeting of Shareholders, but the number of additional directors will not at any time exceed one-third of the number of directors who held office at the expiration of the immediately preceding annual meeting of Shareholders.

Any one or more of the directors may be removed by an ordinary resolution of the Shareholders 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 Directors.

The following sets forth, for each director and each officer of Precision: his or her name; municipality, province or state and country of residence; all positions and offices now held by him or her; the month and year in which he or she was first elected a director or executive officer; and his or her principal occupation during the preceding five years.

Directors of the Corporation

William T. Donovan [2][4] of North Palm Beach, Florida, U.S.A. has been a director of Precision Drilling Corporation since December 2008. Mr. Donovan has been Chairman of the Board of Rockland Industrial Holdings, LLC, a Wisconsin entity engaged in manufacturing wood flooring products for the truck trailer and domestic container industries, since April 2006. He is also a director for several private companies in the United States, the United Kingdom and Russia. Mr. Donovan was a director of Grey Wolf, Inc. from June 1997 to December 2008, prior to its acquisition by Precision Drilling Trust and his subsequent appointment as director of Precision on December 23, 2008. From 1997 to 2005, Mr. Donovan served as President, Chief Executive Officer and a director of Total Logistics, Inc., a Wisconsin corporation engaged in various

operating and investment activities. Mr. Donovan previously served as President, Chief Financial Officer, and was a director of Christiana Companies, Inc. and Prideco Inc. prior to their merger with Weatherford International, Inc. in February 1999. From 1980 to 1998, Mr. Donovan was a Principal and Managing Director of Lubar & Co., a private investment and venture capital firm. Prior to joining Lubar & Co., Mr. Donovan was an officer with Manufacturers Hanover Trust Company from 1976 until 1980, where he specialized in merger and acquisition financing.

Brian J. Gibson, CD[4] of Edmonton, Alberta, Canada, has been a director of Precision Drilling Corporation since May 2011. Mr. Gibson is the Senior Vice President, Equities of AIMCo. Prior to December 2008, Mr. Gibson was President and Chief Executive Officer of Panoply Capital Asset Management Inc., a private investment firm. Prior to January 2008, Mr. Gibson was a Senior Vice President, Public Equities for the Ontario Teachers' Pension Plan. During his 32-year career, Mr. Gibson has been responsible for the management of various large equity investment portfolios, including those of insurance companies, a chartered bank, pension and mutual funds, and endowments. Mr. Gibson has particular expertise in "relationship" investing and in corporate finance. Mr. Gibson received his MBA from the University of Toronto, is a Chartered Financial Analyst, and is a graduate of the Directors' Education Program sponsored by the Institute of Corporate Directors.

Robert J.S. Gibson, CD[2][4] of Calgary, Alberta, Canada has been a director of Precision Drilling Corporation since June 1996. Mr. Gibson has been President of a private investment firm, Stuart & Company Limited, since 1973 and is also Managing Director of Alsten Holdings Ltd. He serves on the Board of Cash Store Financial Services Inc. Mr. Gibson serves as director for a number of private companies. He is also the Chairman and a director for the Canadian Defence and Foreign Affairs Institute.

Allen R. Hagerman, FCA, CD[2][3] of Calgary, Alberta, Canada has been a director of Precision Drilling Corporation since December 2006. Mr. Hagerman is Executive Vice President of Canadian Oil Sands Limited, an oil sands mining and upgrading entity. He is currently responsible for overseeing crude oil marketing operations. Prior to 2007, Mr. Hagerman was Chief Financial Officer of Canadian Oil Sands Limited. Mr. Hagerman is a director of Mongolia Minerals Corporation and the Calgary Exhibition and Stampede, two private entities. He is also a member of the Financial Executives Institute and a past President of Financial Executives Institute, Calgary Chapter, as well as a past Chair of the Alberta Children's Hospital Foundation. Previous board positions include the lead director of Capital Power Income LP, Syncrude Canada Ltd. and University of Calgary. He is a fellow of the Institute of Chartered Accountants of Alberta and received their Distinguished Service Award.

Stephen J.J. Letwin, CD[3] of Toronto, Ontario, Canada has been a director of Precision Drilling Corporation since December 2006. Mr. Letwin is currently President and CEO of IAMGOLD Corporation, a leading mid-tier gold mining company, producing approximately one million ounces annually, from five gold mines on three continents. Mr. Letwin was a senior executive with Enbridge Inc. from 1999 to 2010, including Executive Vice President of Gas Transportation & International with responsibility for natural gas operations, a gas distribution company and its international business unit. Before joining Enbridge, Mr. Letwin served as President & Chief Operating Officer of TransCanada Energy and was Chief Financial Officer, TransCanada Pipelines Limited, Numac (Westcoast Energy), and Encor Energy. He currently serves on the board of a private corporation. Mr. Letwin has actively demonstrated his commitment to voluntary leadership throughout his career. He serves as Patron for UNICEF Alberta, was a former director of YMCA Calgary, served on the Board of Governors at McMaster University, and is an Honorary Director of WestPark Hospital in Toronto, and an Honorary Colonel for the 14th Service Battalion in Calgary. Mr. Letwin was awarded the 2006 Alberta Centennial Medal for his commitment to the community.

Dr. Kevin O. Meyers[3][4] of Houston, Texas, U.S.A. has been a director of Precision Drilling Corporation since September 2011. Dr. Meyers has over 30 years of experience in the energy industry, having retired from ConocoPhillips at the end of 2010. For the ten years prior to his retirement, Dr. Meyers was a senior executive with ConocoPhillips, most recently as Senior Vice President Exploration and Production, Americas. Prior to that, he was President of ConocoPhillips Canada, President of ConocoPhillips Russia and Caspian and President of ConocoPhillips Alaska. While in Russia, Dr. Meyers served on the Board of LUKOIL and was the lead resident executive for the COP/LUKOIL strategic alliance. Prior to joining ConocoPhillips in 2002, Dr. Meyers served in engineering, technical and executive positions with ARCO, last serving

as President of ARCO Alaska. A Pennsylvania native, Dr. Meyers has served on several boards, including the Board of Regents for the University of Alaska and the Nature Conservancy of Alaska. He currently serves on the Boards of Hornbeck Offshore Services (NYSE: HOS), Denbury Natural Resources (NSE: DNR), Bill Barrett Corporation (NYSE:BBG), the World Energy Council, the Houston Symphony and the U.S. Energy Association. He holds a doctorate in chemical engineering from the Massachusetts Institute of Technology and a bachelor's degree in chemistry and mathematics from Capital University in Ohio.

Patrick M. Murray[(2)] of Dallas, Texas, U.S.A. has been a director of Precision Drilling Corporation since July 2002. Mr. Murray retired as Chairman of the Board and CEO of Dresser, Inc. in May 2007. Dresser is a leading manufacturer and marketer of highly engineered equipment for the energy industry. Prior to becoming Chairman of the Board of Dresser, Inc., Mr. Murray served as President and CEO. Previously, Mr. Murray was President of Halliburton Company's Dresser Equipment Group from 1998 to 2000 and Senior Vice President, Strategic Initiatives of Dresser Industries, Inc. in 1997. Mr. Murray is on the board of directors of the Maguire Energy Institute, the World Affairs Council of Dallas/Fort Worth, and the Chairman of the Board of Regents of Seton Hall University. He is also a member of the American Petroleum Institute (API) and the Society of Petroleum Engineers (SPE).

Kevin A. Neveu of Calgary, Alberta, Canada was appointed Chief Executive Officer and a director of Precision Drilling Corporation in August 2007 and became President and Chief Executive Officer in January 2009. Mr. Neveu was previously President of the Rig Solutions Group of National Oilwell Varco in Houston, where he was responsible for the company's drilling equipment business. Over the past 25 years, Mr. Neveu has held senior management positions with National Oilwell Varco and its predecessor companies in London, Moscow, Houston, Edmonton and Calgary. Mr. Neveu holds a Bachelor of Science degree and is a graduate of the Faculty of Engineering at the University of Alberta. Mr. Neveu is a Professional Engineer, as designated by the Association of Professional Engineers, Geologists and Geophysicists of Alberta. In 2002, Mr. Neveu attended the Advanced Management Program at the Harvard Business School. Mr. Neveu serves on the boards of RigNet, Inc., Houston, Texas, and Bonanza Creek Energy Inc. based in Colorado. He is a director of the Heart and Stroke Foundation of Alberta (since 2009) and he was appointed a Member of the board of directors and a Member of the Executive Committee of the International Association of Drilling Contractors, Houston, Texas in January 2010.

Frederick W. Pheasey[(3)] of Edmonton, Alberta, Canada has been a director of Precision Drilling Corporation since July 2002. Mr. Pheasey founded Dreco Energy Services Ltd., a company which designs and manufactures drilling rigs and components and downhole tools. In 1997, Dreco and its subsidiaries were merged into National Oilwell, Inc. (now National Oilwell Varco, Inc.), a company that designs and manufactures systems and components used in oil and gas drilling and production. Mr. Pheasey became Executive Vice President of National Oilwell, Inc. following the merger and continued in that position until 2004. He was a director of National Oilwell, Inc. from 1997 to 2005 and continues to be a director and employee of Dreco Energy Services Ltd. In 1999, Mr. Pheasey was made a honorary member of the Canadian Association of Oilwell Drilling Contractors. In 2002, he was inducted into the Canadian Petroleum Hall of Fame. Mr. Pheasey served on the leadership committee of the City of Edmonton's Committee to End Homelessness and on the Housing Subcommittee in 2008.

Robert L. Phillips, CD[(2)(3)(4)] of Vancouver, British Columbia, Canada has been a director of Precision Drilling Corporation since May 2004 and was appointed as Chairman of the Board of Directors in August 2007. Mr. Phillips is an experienced senior corporate executive having most recently been the President and Chief Executive Officer of BCR Group of Companies from 2001 to 2004. Within the oil and gas exploration and production and oilfield service sectors, he has served as Vice President of Husky Oil Limited and as President and Chief Executive Officer of PTI Group Inc. and Dreco Energy Services Ltd. Mr. Phillips has served on the boards of publicly-traded and private corporations for more than 20 years, including several oil and gas exploration and production and oilfield service companies. In addition to Precision, he currently serves on the boards of several major Canadian corporations. Mr. Phillips is an active private investor. He is a graduate chemical engineer and also practiced corporate and securities law for over 15 years.

Executive Officers of the Corporation

Kevin A. Neveu is President and Chief Executive Officer. See information regarding Directors of Precision set forth above.

Joanne L. Alexander of Calgary, Alberta, Canada is Senior Vice President, General Counsel and Corporate Secretary since February 2012, was Vice President, General Counsel and Corporate Secretary since 2009 and Vice President and General Counsel since 2008. From 2007 to 2008, Ms. Alexander was General Counsel of Marathon Oil Canada Corporation and in 2007, she was General Counsel of Western Oil Sands Inc. Ms. Alexander was General Manager of Stakeholder Engagement & Regulatory Affairs at ConocoPhillips Canada Ltd. in 2006 and Vice President of Legal and Regulatory Affairs at Burlington Resources Canada Ltd. from 2000 to 2006.

Niels Espeland of Dubai, United Arab Emirates is President of International Operations since 2011. From 2007 to 2011, Mr. Espeland was Group Vice President, Drilling for Weatherford International and from 2001 to 2007 was Managing Director, Middle East and Africa for KCA Deutag.

Douglas B. Evasiuk of Houston, Texas, U.S.A. is Senior Vice President, Sales and Marketing – North America since February 2012. Prior to that, Mr. Evasiuk was Vice President, Sales and Marketing – North America since February 2011 and Vice President, Sales and Marketing from 1999 to 2011.

Kenneth J. Haddad of Houston, Texas, U.S.A. is Senior Vice President of Business Development since February 2012 and Vice President of Business Development since 2008. Prior to that, Mr. Haddad was a Director of Mergers & Acquisitions at Halliburton Company from 2002 to 2008.

Robert J. McNally of Calgary, Alberta, Canada is Executive Vice President and Chief Financial Officer and was appointed to that position in 2010. Prior to that appointment, Mr. McNally served as investment Principal at Kenda Capital from 2007 to 2010, except for a period during 2008 when he served as Chief Executive Officer of Dalbo Holdings. He also served as Executive Vice President of Finance and Operations and a member of the board of directors of Warrior Energy Services Corporation in 2006.

Darren J. Ruhr of Calgary, Alberta, Canada is Senior Vice President of Corporate Services since January 2012 and Vice President of Corporate Services since 2009. Prior to that, Mr. Ruhr was Vice President of Corporate Services & Corporate Secretary from 2005 to 2009.

Gene C. Stahl of Houston, Texas, U.S.A. is President of Drilling Operations since 2008. Prior to that, Mr. Stahl was President and Chief Operating Officer from 2005 to 2008.

Douglas J. Strong of Calgary, Alberta, Canada is President of Completion and Production Services since 2010. Previously, Mr. Strong was Chief Financial Officer from 2005 to 2010.

Notes:
(1)Each director's term of office expires not later than the close of business at the next annual meeting, or until successors are appointed or directors vacate their office.
(2) Member of the Audit Committee.
(3) Member of the Human Resources and Compensation Committee.
(4) Member of the Corporate Governance, Nominating and Risk Committee.
(5) Mr. Pheasey will not be standing for re-election as a director at the next annual meeting.

As at March 1, 2012, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, or controlled or directed over 1,287,199 Common Shares, or approximately 0.5% of the issued and outstanding Common Shares, which aggregate number includes a total of 334,319 Common Shares credited to the accounts of non-management directors pursuant to a deferred share unit plan approved by Shareholders on May 11, 2011.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

Corporate Cease Trade Orders

To the knowledge of the Corporation, no director or executive officer of Precision, is as at the date hereof or has been, within the 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company that: (i) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an order that was issued after the director, executive officer or chief financial officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Corporate Bankruptcies

To the knowledge of the Corporation, except as set forth herein, no director, executive officer or controlling securityholder of the Corporation, as applicable, is, as of the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

At the request of the shareholders and with the consent of the majority of creditors, Mr. Robert J.S. Gibson became the sole director of 358427 Alberta Ltd. ("**358427**") in 1995. 358427 was insolvent at the time of Mr. Robert J.S. Gibson's appointment as director. Mr. Robert J.S. Gibson managed the liquidation of the assets of 358427 with the general consent of the creditors of 358427. In order to resolve a dispute relating to certain assets of 358427, a bankruptcy petition was filed with the consent of all interested parties. The dispute was subsequently resolved in 2005 by negotiation between the parties.

Mr. Robert J.S. Gibson was a member of the board of directors of International Utility Structures Inc. (" **IUSI**") from February 1994 until November 2003. In August 2003, IUSI was unable to make a scheduled interest payment on its senior subordinated notes and was declared in default of its debt obligations. IUSI obtained an order from the Court of Queen's Bench of Alberta in October 2003 under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") for the purpose of restructuring its affairs in an orderly manner. A Chief Restructuring Officer was appointed for IUSI which proceeded to restructure IUSI's business and affairs under CCAA protection.

Mr. Pheasey was a member of the board of directors of Global Dewatering Ltd. (" **GDL**"), the general partner of Global Dewatering Limited Partnership No. 1 ("**GDLP**"), as well as the largest unsecured and secured creditor of GDL and GDLP, when a trustee was appointed of the business of GDL and GDLP under the *Bankruptcy and Insolvency Act* (Canada) in order to maximize the recovery from work in progress and sell the business conducted by GDLP as a going concern. The trustee operated the business of GDLP from July 23, 2003 to August 10, 2003, following which the assets and operations of GDLP were turned over to a receiver-manager appointed by Mr. Pheasey as secured creditor.

Mr. Murray was a director of Rancher Energy Corp. (" **Rancher**") from April 20, 2007 to September 30, 2009. On October 28, 2009, Rancher filed a voluntary petition for relief under Chapter 11 of Title 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Colorado. Rancher has announced that it will be operating its business as "debtor-in-possession" under the jurisdiction of the court and in accordance with the applicable provisions of the Bankruptcy Code, as it attempts to resolve its liquidity problems and develop a reorganization plan.

Personal Bankruptcies

To the knowledge of the Corporation, no director, executive officer or controlling securityholder of Precision has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

Penalties or Sanctions

To the knowledge of the Corporation, no director, executive officer or controlling securityholder of the Corporation, as applicable, has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The Audit Committee Charter (the "**Audit Committee Charter**") of Precision is set forth in Appendix 1 of this Annual Information Form.

Composition of the Audit Committee

The Audit Committee of Precision currently consists of Patrick M. Murray (Chairman), Robert L. Phillips, Allen R. Hagerman, Robert J.S. Gibson and William T. Donovan. The Audit Committee is a standing committee appointed by the Board of Directors to assist the Board of Directors in fulfilling its oversight responsibilities with respect to financial reporting by Precision. Each member of the Audit Committee is independent and none have received, directly or indirectly, any compensation from Precision other than for services as a member of the Board of Directors and its committees. All members of the Audit Committee are "financially literate" (as that term is defined in National Instrument 52-110 – *Audit Committees)*. In addition, the Board of Directors has determined that each of Messrs. Murray, Hagerman and Donovan qualify as "audit committee financial experts" (as that term is defined in the United States *Sarbanes-Oxley Act of 2002)*.

Relevant Education and Experience

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member are as follows: Patrick M. Murray (Chair) is the retired Chairman, President and Chief Executive Officer of Dresser, Inc. Mr. Murray received a B.S. degree in Accounting in 1964 from Seton Hall University and an MBA in 1973. Mr. Murray has been a member of Precision's Audit Committee since April 2003. Robert L. Phillips' experience includes executive level positions at several corporations and board membership on several public corporations including membership on a number of audit committees. Mr. Phillips received a B.Sc. in Chemical Engineering in 1971 and a LLB in 1976 from the University of Alberta. Mr. Phillips was appointed to the Audit Committee in December 2008. Allen R. Hagerman is the Executive Vice President, Canadian Oil Sands Limited and was Chief Financial Officer of Canadian Oil Sands Limited from 2003 to 2007. Mr. Hagerman received a B. Comm. from the University of Alberta in 1973, his Chartered Accountant designation in 1975 and his FCA designation in 1996 from the Institute of Chartered Accountants of Alberta. Mr. Hagerman also received an MBA from the Harvard School of Business in 1977 and his ICD.D designation from the ICD Corporate Governance College in 2005. Mr. Hagerman was appointed to the Audit Committee in May 2007. Robert J. S. Gibson is the President of Stuart & Company Limited and has been a member of the Audit Committee since June 1997. William T. Donovan is the Chairman of Rockland Industrial Holdings, LLC of Milwaukee, Wisconsin, was a director of Grey Wolf from 1997 until the date of the Grey Wolf Acquisition and was the Chief Financial Officer of Christina Companies, Inc. prior to February 1999. Mr. Donovan has a B.S. degree (1974) and an MBA (1976) from the University of Notre Dame. Mr. Donovan was appointed to the Audit Committee in December 2008.

Pre-approval Policies and Procedures

Under the Audit Committee Charter, the Audit Committee is required to approve the terms of the engagement and the compensation to be paid to the external auditor of the Corporation. In addition, the Audit Committee is required to review and pre-approve all permitted non-audit services to be provided to the Corporation or any affiliated entities by the external auditors or any of their affiliates subject to any *de minimus* exception allowed by applicable law.

The Audit Committee implemented specific procedures regarding the pre-approval of services to be provided by Precision's external auditor commencing in 2003. These procedures specify certain prohibited services that are not to be performed by the external auditor. In addition, these procedures require that at least annually, prior to the period in which the services are proposed to be provided, Precision's management will, in conjunction with the Corporation's external auditor, prepare and submit to the Audit Committee a complete list of all proposed services to be provided to Precision by the external auditor. Under the Audit Committee pre-approval procedures, for those services proposed to be provided by the external auditor that have not been previously approved by the Audit Committee, the Chairman of the Audit Committee has the authority to grant pre-approvals of such services. The decision to pre-approve a service covered under this procedure is required to be presented to the full Audit Committee at the next scheduled meeting. At each of the Audit Committee's regular meetings, the Audit Committee is to be provided with an update as to the status of services pre-approved since the prior regular meeting.

Pursuant to these procedures, since their implementation in 2003, 100% of each of the services provided by the Corporation's external auditor relating to the fees reported as audit, audit-related, tax and all other fees were pre-approved by the Audit Committee or its delegate.

Audit Fees

The following table provides information about fees billed to Precision and its affiliates for professional services rendered by KPMG LLP, Precision's external auditor, during fiscal 2011 and 2010:

	Years ended December 31,	
Stated in thousands of Canadian dollars	**2011**	**2010**
Audit fees	$ 1,943	$ 2,038
Audit-related fees	–	–
Tax fees	361	528
All other fees	36	178
Total	**$ 2,340**	**$ 2,744**

Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of Precision's financial statements and are not reported as audit fees. There were no such fees incurred in 2011 or 2010.

Tax fees consist of fees for tax compliance services, tax advice and tax planning. During fiscal 2011 and 2010, the services provided in this category included assistance and advice in relation to the preparation of income tax returns for Precision and its subsidiaries, expatriate tax compliance matters and general tax advice.

Other fees consist of services provided for translation of financial information to French.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no material legal proceedings to which the Corporation is a party or in respect of which any of the Corporation's properties are subject, nor are there any such proceedings known to be contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of the directors and executive officers of Precision, as applicable, any Shareholder who beneficially owns more than 10% of the outstanding Common Shares, or any known associate or affiliate of such persons, in any transaction within the last fiscal year and in any proposed transaction which has materially affected or is reasonably expected to materially affect the Corporation.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada, located in Calgary, Alberta, is the transfer agent and registrar of the Common Shares. In the United States, the co-transfer agent for the Corporation is Computershare Trust Company NA located in Golden, Colorado.

MATERIAL CONTRACTS

The only material contracts entered into by Precision during or after the most recently completed financial year, or before the most recently completed financial year that are still in effect, other than contracts during the ordinary course of business, are as follows:

The Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture, the 2021 Note Indenture and the Registration Rights Agreement.

See "Description of Capital Structure – Material Debt".

Copies of the material agreements described above, other than the Secured Facility, have been filed by the Corporation on SEDAR and EDGAR and are available at www.sedar.com and EDGAR at www.sec.gov, respectively.

INTERESTS OF EXPERTS

KPMG LLP, Chartered Accountants, is the external auditor of the Corporation and has prepared an opinion with respect to the Corporation's consolidated financial statements as at and for the year ended December 31, 2011. In connection with the audit of the Corporation's annual financial statements for the year ended December 31, 2011, the auditors confirmed that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and within the meaning of the *United States Securities Act of 1933* and the applicable rules and regulations thereunder adopted by the Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2011, an evaluation of the effectiveness of the Corporation's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the United States *Securities Exchange Act of 1934,* as amended (the "**Exchange Act**")) was carried out by the Corporation's management with the participation of the principal executive officer and principal financial and accounting officer of Precision. Based upon that evaluation, the principal executive officer and the principal financial and accounting officer of Precision have concluded that as of December 31, 2011, the Corporation's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and is accumulated and communicated to the Corporation's management, including the principal executive officer and principal financial and accounting officer of Precision, to allow timely decisions regarding required disclosure.

It should be noted that while Precision's principal executive officer and principal financial and accounting officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Corporation's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS.

Under the supervision and with the participation of management, including the principal executive officer and principal financial and accounting officer, Precision conducted an evaluation of the design and effectiveness of its internal control over financial reporting as of the end of the fiscal year based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that, as of December 31, 2011, the Corporation did maintain effective internal control over financial reporting.

During the fiscal year ended December 31, 2011, there were no changes in the Corporation's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis relating to the consolidated financial statements for the fiscal year ended December 31, 2011 forms part of the Corporation's 2011 Annual Report and is incorporated by reference in this Annual Information Form. Management's Discussion and Analysis appears on pages 2 to 43 of the 2011 Annual Report.

ADDITIONAL INFORMATION

Additional information concerning the Corporation is available through the Internet on SEDAR which may be accessed at www.sedar.com. Copies of such information may also be obtained without charge, on the Corporation's website at www. precisiondrilling.com or by request to the Senior Vice President, General Counsel and Corporate Secretary, at the office of the Corporation at 800, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1; by email at corporatesecretary@ precisiondrilling.com; by telephone at (403) 716-4500; and by facsimile at (403) 264-0251.

Additional information, including information regarding Precision's directors' and officers' remuneration, will be contained in the Management Information Circular of the Corporation provided for the Annual Meeting of Shareholders to be held on May 9, 2012, and filed on SEDAR. Additional financial information is provided in the Corporation's annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2011 contained in the Annual Report. Copies of such documents may be obtained in the manner set forth above.

RISK FACTORS

An investment in the Common Shares is subject to certain risks. Investors should carefully review and consider the risks described below and all other information contained in this Annual Information Form before making an investment decision and consult their own experts where necessary.

Precision's operations are dependent on the price of oil and natural gas.

Precision sells its services to oil and natural gas exploration and production companies. Macroeconomic 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, although the differential between benchmarks such as West Texas Intermediate and European Brent crude oil can fluctuate. As in all markets, when supply, demand and other market factors change, so can the spreads between benchmarks. Natural gas is most economically transported in its gaseous state via pipeline, and its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. However, recent developments in the transportation of liquefied natural gas in ocean going tanker ships have introduced an element of globalization to the natural gas market. The volatility of crude oil and natural gas prices accounts for much of the cyclical nature of the oilfield services business.

Worldwide military, political and economic events, including sovereign debt concerns in Europe, lower expectations for global economic growth or initiatives by the Organization of the 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, United States and Canadian natural gas storage levels 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. A prolonged reduction in oil and natural gas prices would likely 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 Precision's 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 honor Precision's drilling contracts which could affect Precision's ability to realize upon the anticipated revenues which support its capital expenditure program and new build rig deliveries. Additionally, lower oil and natural gas prices, oilfield services demand and rig utilization could affect the fair market value of Precision's rig fleet, which in turn could trigger a write down for accounting purposes. 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.

Precision's accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. The collection of receivables may be adversely affected by any prolonged weakness in oil and natural gas prices.

The intense price competition and cyclical nature of the contract drilling industry could have an adverse effect on revenue and profitability.

The contract drilling business is highly competitive with numerous industry participants, and the drilling contracts Precision competes for are usually awarded on the basis of competitive bids. Precision believes pricing and rig availability are the primary factors considered by Precision's potential customers in determining which drilling contractor to select. Precision believes other factors are also important. Among those factors are: the drilling capabilities and condition of drilling rigs; the quality of service and experience of rig crews; the safety record of the contractor and the particular drilling rig; the offering of ancillary services; the ability to provide drilling equipment adaptable to, and personnel familiar with, new technologies and drilling techniques; and the mobility and efficiency of rigs.

The contract drilling industry historically has been cyclical and has experienced periods of low demand, excess rig supply, and low dayrates, followed by periods of high demand, short rig supply and increasing dayrates. Periods of excess drilling rig supply intensify the competition in the industry and often result in rigs being idle. There are numerous contract drilling competitors in each of the markets in which Precision competes. In all of those markets, an oversupply of drilling rigs can cause greater price competition. Contract drilling companies compete primarily on a regional basis, and the intensity of competition may vary significantly from region to region at any particular time. If demand for drilling services is better in a region where Precision operates, Precision's competitors might respond by moving in suitable drilling rigs from other regions, by reactivating previously stacked rigs or purchasing new drilling rigs. An influx of drilling rigs into a market area from any source could rapidly intensify competition and make any improvement in the demand for Precision's drilling rigs short-lived, which could in turn have a material adverse effect on Precision's revenues, cash flows and earnings.

Precision's business results and the strength of its financial position are affected by its ability to strategically manage its capital expenditure program in a manner consistent with industry cycles and fluctuations in the demand for contract drilling services. A failure by Precision to effectively manage its capital expenditures or respond to market signals relating to the supply or demand for contract drilling and oilfield services could have a material adverse effect on Precision's revenues, operations and financial condition.

New capital expenditures in the contract drilling industry expose Precision's business to the risk of oversupply of equipment.
Periods of high demand often promote increased capital expenditures on oilfield service equipment, including drilling rigs. The number of drilling rigs competing for work in the market areas where Precision operates has increased due to the entry into those markets of newly-built or upgraded rigs, including as a result of Precision's capital expenditure program. Precision expects that more of these newer rigs will continue to enter market areas where Precision operates. As a result of the relatively long life span of oilfield service equipment and the waiting period between the time a decision is made to upgrade or build new equipment and the time such equipment is placed into service, the supply of drilling rigs in the industry may exceed actual demand. Excess supply as result of industry-wide capital expenditures could lead to reduced demand for term drilling contracts and Precision's equipment and services. Furthermore, the addition of these drilling rigs has and could continue to intensify price competition and could possibly lead to a decrease in rates in the oilfield services industry generally and decreased utilization of existing rigs. The materialization of the above factors would have an adverse effect on Precision's revenues, cash flows, earnings and asset valuation.

Any difficulty Precision experiences retaining, replacing or adding personnel could adversely affect Precision's business.
Precision may not be able to find enough skilled labor to meet its needs, which could limit growth. Precision may also have problems finding enough skilled and unskilled laborers in the future if demand for Precision's services increases. Shortages of qualified personnel have occurred in the past during periods of high demand. The demand for qualified rig personnel generally increases as a result of overall stronger demand for land drilling services and as new and refurbished rigs are brought into service by Precision and its competitors. Increased demand typically leads to wage rate increases which may or may not be reflected by service rate increases.

Other factors may also inhibit Precision's ability to find enough workers to meet employment needs. The work currently performed by Precision's employees requires skilled workers who can perform physically demanding work. As a result of volatility in oil and natural gas activity and the demanding nature of the work, workers may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive with Precision's. Precision believes that success is dependent upon the ability to continue to employ and retain skilled technical personnel and qualified rig personnel. Precision's inability to employ or retain skilled technical personnel and qualified rig personnel generally could have a material adverse effect on its operations.

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. Many of Precision's businesses experience manpower shortages in peak operating periods. These shortages are likely to be further exacerbated by the number of rigs being added to the industry along with the entrance and expansion of newly formed oilfield service companies.

There are certain risks associated with Precision's dependence on third-party suppliers.
Precision sources certain key rig components, raw materials, equipment and component parts from a variety of suppliers located in Canada, the United States and overseas. Precision also outsources some or all services for the construction of drilling and service rigs, including for new build rigs announced as part of Precision's capital expenditure program. See "Three Year History – 2011 – Capital Expenditures and Rig Fleet Upgrades". While Precision maintains relationships with a number of key suppliers and contractors, maintains an inventory of key components, materials, equipment and parts and orders long lead time components in advance, Precision may be subject to cost increases, delays in delivery due to the high activity or financial hardship of suppliers or contractors, or other unforeseen circumstances relating to third parties. If current or alternate suppliers are unable to provide or deliver the necessary components, materials, equipment, parts and services Precision requires as part of its businesses, including the construction of new build drilling rigs, any resulting delays by Precision in the provision of services to customers may have a material adverse effect on Precision's revenues, cash flows and earnings.

Poor safety performance could lead to a decline in the demand for Precision's services.
Standards for the prevention of incidents in the oil and gas industry are governed by service company safety policies and procedures, accepted industry safety practices, customer-specific safety requirements and health and safety legislation. A key factor considered by Precision's customers in selecting oilfield service providers is safety. Deterioration in Precision's safety performance could result in a decline in the demand for services and could have a material adverse effect on Precision's revenues, cash flows and earnings.

Precision is subject to various environmental, health and safety laws, rules, legislation and guidelines which can impose material liability or greater costs on Precision's business or lead to a decline in the demand for Precision's services.
Precision's operations are subject to numerous laws, regulations and guidelines relating to the protection of the environment and of health and safety, including those governing the management, transportation and disposal of hazardous substances and other waste materials. These laws, regulations and guidelines include those relating to spills, releases, emissions and discharges of hazardous substances or other waste materials into the environment, requiring removal or remediation of pollutants or contaminants and imposing civil and criminal penalties for violations. Some of the laws, regulations and guidelines that apply to Precision's operations also authorize the recovery of natural resource damages by the government, injunctive relief, and the imposition of stop, control, remediation and abandonment orders. Additionally, Precision's land drilling operations may be conducted in or near ecologically sensitive areas, such as wetlands, which are subject to special protective measures and which may expose Precision to additional operating costs and liabilities for noncompliance with applicable laws. Some environmental laws and regulations may impose strict, and in certain cases joint and several, liability, which means that in some situations Precision could be exposed to liability as a result of conduct that was lawful at the time it occurred or conduct of, or conditions caused by, prior operators or other third parties, including any such liability related to any offsite treatment or disposal facility. The costs arising from compliance with such laws, regulations and guidelines may be material to Precision.

The issue of energy and the environment has created intense public debate in Canada and around the world in recent years that is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment. Any regulatory changes that impose additional environmental restrictions or requirements on Precision or its customers could adversely affect Precision through increased operating costs and potential decreased demand for Precision's services. For example, there is growing concern about the apparent connection between the burning of fossil fuels and climate change. Laws, regulations or treaties concerning climate change or greenhouse gas emissions may have an adverse impact on the demand for oil and natural gas, which could have a material adverse effect on Precision. Additionally, governments in Canada and the United States are reviewing more stringent regulation or restriction of hydraulic fracturing, a technology used by certain of Precision's customers which involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production, which could negatively impact the exploration of unconventional energy resources which are not commercially viable without the use of hydraulic fracturing. Laws relating to hydraulic fracturing are in various stages of development at levels of governments in markets where Precision operates. There can be no assurance of the outcome of these developments, their effect on the regulatory landscape and the contract drilling industry, or that additional governmental organizations will not in the future choose to review and seek to pass legislation in respect of hydraulic fracturing.

While Precision maintains liability insurance, including insurance for certain environmental claims, the insurance is subject to coverage limits and certain of Precision's policies exclude coverage for damages resulting from environmental contamination. Precision cannot assure that insurance will continue to be available to Precision on commercially reasonable terms, that the possible types of liabilities that may be incurred by Precision will be covered by its insurance, or that the dollar amount of such liabilities will not exceed Precision's policy limits. Even a partially uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on Precision's business, results of operations and prospects.

Business in Precision's industry is seasonal and highly variable.

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

There are risks and uncertainties associated with international operations which could negatively affect Precision's business.

Precision conducts a portion of its business outside of Canada and the United States, in areas such as Mexico and the Kingdom of Saudi Arabia. In addition, Precision's growth plans contemplate establishing operations in additional foreign countries, including countries where the political and economic systems may be less stable than those in Canada or the United States. Precision's international operations are subject to risks normally associated with conducting business in foreign countries, including, but not limited to: uncertain political and economic environments; the loss of revenue, property and equipment as a result of expropriation, confiscation, nationalization, war, terrorist threats, civil insurrection and geopolitical and other political risks; fluctuations in foreign currency and exchange controls; increases in duties, taxes and governmental royalties; renegotiation of contracts with governmental entities; and changes in laws and policies governing operations of foreign-based companies. If a dispute arises out of Precision's international operations, Precision may be subject to the exclusive jurisdiction of foreign courts or may not be able to subject foreign persons to the jurisdiction of a court in Canada or the United States.

Government-owned petroleum companies located in some of the countries in which Precision operates, or may choose to operate in the future, may have policies, or may be subject to governmental policies, giving preference to the purchase of goods and services from companies that are majority-owned by local nationals. As a result of these policies, Precision may rely on joint ventures, license arrangements and other business combinations with local nationals in these countries which may expose to Precision to certain counterparty risks, including the failure of such local nationals to satisfy contractual obligations or comply with laws of local or international application to Precision.

In the international markets in which Precision operates, it is subject to various laws and regulations that govern the operation and taxation of its businesses and the import and export of its equipment from country to country, the imposition, application and interpretation of which could prove to be uncertain or subject to change. Since Precision derives a portion of its revenues from subsidiaries outside of Canada, the payment of dividends or the making of other cash payments or advances by these subsidiaries may be subject to restrictions or exchange controls on the transfer of funds in or out of the respective countries or result in the imposition of taxes on such payments or advances. Precision has organized its foreign operations, in part, based on certain assumptions about various tax laws (including capital gains and withholding taxes), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While Precision believes that such assumptions are reasonable, there can be no assurance that foreign taxing or other authorities will reach the same conclusion. Further, if such foreign jurisdictions were to change or modify such laws, Precision could suffer adverse tax and financial consequences.

Additionally, while Precision has developed policies and procedures designed to achieve compliance with applicable international laws, Precision could be exposed to potential claims, economic sanctions or other restrictions for alleged or actual violations of international laws in connection with its international operations, including anti-corruption and trading sanctions legislation. The Canadian government, the United States Department of Justice, the United States Securities and Exchange Commission, the United States Office of Foreign Assets Control and other agencies and authorities have

a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for such violations, including, but not limited to, injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs.

While the impact of the foregoing factors cannot be accurately predicted, if any of the risks materialize, they could have a material adverse effect on Precision's reputation, business, financial condition, results of operations and cash flows.

New technology could reduce demand for certain rigs or place Precision at a disadvantage versus competitors.
Complex drilling programs for the exploration and development of conventional and unconventional oil and natural gas reserves demand high performance drilling rigs. The ability of drilling rig service providers to meet this demand will depend on continuous improvement of existing rig technology such as drive systems, control systems, automation, mud systems and top drives to improve drilling efficiency. Precision's ability to deliver equipment and services that meet customer demand is critical to its continued success. Precision cannot assure that its rig technology will continue to meet demands, especially as rigs age and technology advances, or that competitors will not achieve technological improvements that are more advantageous, timely or cost effective than improvements developed by Precision.

There are risks associated with turnkey drilling operations which could adversely affect Precision's business.
Precision derives a portion of its revenues from turnkey drilling contracts and expects that turnkey drilling will continue to represent a part of Precision's service offering. Under a typical turnkey drilling contract, Precision would agree to drill a well for a customer to a specified depth and under specified conditions for a fixed price. As part of this arrangement, Precision would typically provide technical expertise and engineering services, as well as most of the equipment required for the drilling of turnkey wells. Precision would use subcontractors for related services. In the typical turnkey drilling arrangement, Precision would not receive progress payments and would be entitled to be paid by the customer only after the terms of the drilling contract have been performed in full. In addition, difficulties are encountered from time to time on wells being drilled under turnkey contracts and unanticipated costs may be incurred, not all of which have been or may be covered by insurance. For these reasons, the risk under turnkey drilling contracts is substantially greater than for wells drilled on a daywork basis, because under such contracts Precision must assume most of the risks associated with drilling operations that are generally assumed by the customer under a daywork contract. The occurrence of operating cost overruns or operational difficulties on turnkey jobs could have a material adverse effect on Precision's financial position and results of operations.

Business acquisitions entail numerous risks and may disrupt Precision's business or distract management attention from operating Precision's business.
Precision contemplates that, as part of its business strategy, it will continue to consider and evaluate acquisitions of, or significant investments in, businesses and assets that are complementary to Precision. Any acquisition that Precision completes could have a material adverse effect on its operating results, its financial condition and/or the price of its securities. Acquisitions involve numerous risks, including: unanticipated costs and liabilities; difficulty of integrating the operations and assets of the acquired business; the ability to properly access and maintain an effective internal control environment over an acquired company in order to comply with public reporting requirements; potential loss of key employees and customers of the acquired companies; and an increase in Precision's expenses and working capital requirements.

Precision may incur substantial indebtedness to finance future acquisitions and also may issue equity securities or convertible securities in connection with any such acquisitions. Debt service requirements could represent a burden on Precision's results of operations and financial condition. Precision will also be required to meet certain conditions in order to borrow money to fund future acquisitions. Acquisitions could also divert the attention of management and other employees from Precision's day-to-day operations and the development of new business opportunities. Even if Precision is successful in integrating future acquisitions into its operations, Precision may not derive the benefits, such as operational or administrative synergies, that it expects from such acquisitions, which may result in the commitment of its capital resources without the expected returns on such capital. In addition, Precision may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets.

Precision's operations face many risks of interruption and casualty losses.

Precision's operations are subject to many hazards inherent in the drilling and well servicing industries, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, reservoir damage, damaged or lost equipment and damage or loss from inclement weather or natural disasters. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage, damage to the property of others and damage to producing or potentially productive oil and natural gas formations through which Precision drills. Generally, drilling and service rig contracts provide for the division of responsibilities between a drilling or service rig company and the customer, and Precision seeks to obtain indemnification from its customers by contract for certain of these risks. Precision also seeks protection through insurance. However, Precision cannot ensure that such insurance or indemnification agreements will adequately protect it against liability from all of the consequences of the hazards described above. The occurrence of an event not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses. In addition, insurance may not be available to cover any or all of these risks, or, even if available, may not be adequate. Insurance premiums or other costs may rise significantly in the future, so as to make such insurance prohibitively expensive or uneconomic. This is of particular concern in the wake of significant events such as terrorist attacks in the United States, severe hurricane damage and well blowout damage in the United States Gulf Coast region, all of which have resulted in significantly increased insurance costs, deductibles and coverage restrictions. In future insurance renewals, Precision may choose to increase its self insurance retentions, and thus assume a greater degree of risk, in order to reduce costs associated with increased insurance premiums.

Precision's business is affected by governmental regulations and policies.

Certain activities conducted by Precision are affected by factors that are beyond Precision's control or influence. Precision's operations are directly affected by fluctuations in exploration, development and production activity carried on by Precision's customers which, in turn, are dictated by numerous factors, including economic conditions, global 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, United States and other markets in which Precision operates or may choose to operate in the future. These factors could lead to a decline in the demand for Precision's services, resulting in a material adverse effect on revenues, cash flows and earnings.

Precision could face negative tax consequences for previous transactions.

The business and operations of Precision are complex and Precision has executed a number of significant financings, business combinations, acquisitions and dispositions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Precision's interpretation of relevant tax legislation and regulations. Precision's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, there are tax filing positions that have been and can still be the subject of review by taxation authorities who may successfully challenge Precision's interpretation of the applicable tax legislation and regulations, with the result that additional taxes could be payable by Precision and the amount owed, with estimated interest but without penalties, could be up to $58 million.

Precision will require sufficient cash flows to service and repay its indebtedness.

Precision will require sufficient cash flows in the future in order to service and repay its indebtedness. Precision's ability to generate cash in the future will be, to a certain extent, subject to general economic, financial, competitive and other factors that may be beyond its control. In addition, Precision's ability to borrow funds in the future to service its debt, if necessary, will depend on covenants in the Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture, the 2021 Note Indenture and other debt agreements Precision enters into in the future. Future borrowings may not be available to Precision under the Secured Facility or from the capital markets in amounts sufficient to enable Precision to pay its obligations as they mature or to fund other liquidity requirements. If Precision is not able to obtain such borrowings or generate cash flow from operations in an amount sufficient to enable it to service and repay its indebtedness, Precision will need to refinance its indebtedness or be in default under the agreements governing its indebtedness and could be

forced to reduce or delay investments and capital expenditures or to dispose of material assets. Such refinancing or alternative measures may not be available on favorable terms or at all. The inability to service, repay and/or refinance our indebtedness could negatively impact Precision's financial condition and results of operations.

In addition, Precision conducts a substantial portion of its operations through subsidiaries, certain of which will not be guarantors of its indebtedness. The assets and operations of the non-guarantor subsidiaries are not material and such subsidiaries do not have any obligation to pay amounts due on the indebtedness or to make funds available for that purpose. Accordingly, repayment of indebtedness by Precision is dependent on the generation of cash flow by its guarantor subsidiaries and their ability to make such cash available to Precision, by dividend, debt repayment or otherwise. Precision's guarantor subsidiaries may not be able to, or may not be permitted to, make distributions to enable Precision to make payments in respect of its indebtedness. Each guarantor subsidiary is a distinct legal entity, and, under certain circumstances, legal and contractual restrictions may limit Precision's ability to obtain cash from its subsidiaries. While the agreements governing certain of Precision's existing indebtedness will limit the ability of its subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to Precision, these limitations are subject to qualifications and exceptions. In the event that Precision does not receive distributions from its guarantor subsidiaries, it may be unable to make required principal and interest payments on its indebtedness which could materially and adversely affect Precision's financial position and results of operations.

The Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture and the 2021 Note Indenture contain restrictive covenants.
The Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture and the 2021 Note Indenture contain a number of covenants that, among other things, restrict Precision's and certain of its subsidiaries' ability to conduct certain activities. In addition, under the Secured Facility, Precision will be required to satisfy and maintain certain financial ratio tests. See "Description of Capital Structure – Material Debt". Precision's ability to meet such tests could be affected by events beyond its control, and Precision may not be able to meet such tests. A breach of any of these covenants could result in a default under the Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture or the 2021 Note Indenture. Upon the occurrence of an event of default under the Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture or the 2021 Note Indenture, the applicable lenders or note holders could elect to declare all amounts outstanding under the Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture or the 2021 Note Indenture, as the case may be, to be immediately due and payable and terminate all commitments to extend further credit.

A successful challenge by the tax authorities of the expenses deducted by Precision or its subsidiaries could negatively affect the value of the Common Shares.
There can be no assurance that taxation authorities will agree with the classification of expenses claimed by Precision or its subsidiaries or that the taxation authorities will not seek to challenge the amount of interest expense deducted. If the taxation authorities successfully challenge the classification or deductibility of any such expenses, the return to Shareholders may be adversely affected.

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

There are risks associated with increased capital expenditures.
The timing and amount of capital expenditures incurred by Precision will directly affect the amount of cash available to Precision. The cost of equipment generally escalates as a result of, among other things, high input costs in periods of high demand for oilfield service equipment, including Precision's drilling rigs. Precision cannot assure that it will be able to recover higher capital costs through rate increases to Precision's customers.

The loss of key management personnel could reduce Precision's competitiveness and prospects for future success.
The future success and growth of Precision is dependent, in part, upon the expertise and experience of its key management personnel. No assurance can be provided that Precision will be able to retain key management personnel and the loss of such persons could have a material adverse effect on Precision's operations and financial condition.

The results of Precision's assessment of goodwill and/or capital assets for impairment may result in a non-cash charge against Precision's consolidated net income.
Precision is required to assess its goodwill balance for impairment at least annually. It is also required to assess its capital assets balance for impairment when certain internal and external factors may indicate the necessity for further analysis. Any impairment write down to goodwill or capital assets would result in a non-cash charge against net earnings and any such charge could be material.

The calculation of any impairment is subject to management estimates and assumptions. Factors that may be considered in such a calculation include, but are not limited to, declines in Precision's share price and market capitalization, reduced future cash flow and earnings estimates, significantly reduced or depressed markets in the industry in which Precision and its subsidiaries operate and general economic conditions.

Precision's operations are subject to foreign exchange risk, which could cause results to fluctuate significantly from period to period.
Precision's United States and international operations have revenue, expenses, assets and liabilities denominated in currencies other than the Canadian dollar, principally in United States dollars and currencies which are pegged to the United States dollar. As a result, Precision's income statement, balance sheet and statement of cash flow are impacted by changes in currency exchange rates.

- *Translation into Canadian Dollars.* For the purpose of preparing Precision's consolidated financial statements, the financial statements of each foreign operation that does not have a Canadian dollar functional currency are translated into Canadian dollars. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates for the month of the respective transaction. Gains or losses resulting from these translation adjustments are recognized initially in other comprehensive income and reclassified from equity to net earnings on disposal or partial disposal of the foreign operation. Changes in currency exchange rates could materially increase or decrease Precision's foreign currency-denominated net assets on consolidation which would increase or decrease, as applicable, shareholders' equity. As well, changes in currency exchange rates will affect the translation of the revenue and expenses of Precision's United States and international operations and will result in lower or higher net earnings than would have occurred had the exchange rate not changed. If the Canadian dollar strengthens versus the United States dollar, the Canadian dollar equivalent of net earnings from international operations will be negatively impacted.

- *Transaction Exposure.* Precision has long-term debt denominated in United States dollars. Precision has designated its United States dollar denominated unsecured senior notes as a hedge against the net asset position of its United States operations. This debt is converted at the exchange rate in effect at the balance sheet dates with the resulting gains or losses included in the statement of comprehensive income. If the Canadian dollar strengthens versus the United States dollar, Precision will incur a foreign exchange gain from the translation of this debt. The vast majority of Precision's international operations are transacted in United States dollars or United States dollar-pegged currencies. Transactions for Precision's Canadian operations are primarily transacted in Canadian dollars. However, Precision occasionally purchases goods and supplies in United States dollars for its Canadian operations. These types of transactions and foreign exchange exposure would not typically have a material impact on Precision's financial results.

Precision may be unable to obtain access to additional financing.
Precision may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures, to repay existing or future indebtedness (including the Secured Facility, the 2020 Notes, the 2019 Notes and the 2021 Notes) or to undertake acquisitions or other business combination transactions. Continued or future volatility or uncertainty in the credit markets may increase costs associated with issuing debt and Precision cannot assure that additional financing will be available to it when needed or on terms acceptable or favorable to Precision. Precision's inability to raise financing to support ongoing operations or to fund capital expenditures, acquisitions, debt repayments or other business combination transactions could limit growth and may have a material adverse effect on Precision's revenues, cash flows and profitability.

Conditions in the credit markets in the future may adversely affect business.
The ability to make scheduled debt repayments, to refinance debt obligations or access financing depends on the financial condition and operating performance of Precision, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond its control. Continued or future volatility in the credit markets may increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect Precision's, or third parties it seeks to do business with, ability to access those markets. Precision may be unable to maintain a level of cash flow from operating activities sufficient to permit it to pay the principal, premium, if any, and interest on its indebtedness.

In addition, should there be continued or future volatility or uncertainty in the capital markets, access to financing may be uncertain, which may have an adverse effect on the industry in which Precision operates and its business, including future operating results. Precision's customers may curtail their drilling programs, which could result in a decrease in demand for drilling rigs and a reduction in dayrates, reduction in the number and profitability of turnkey jobs and/or utilization. In addition, certain customers could experience an inability to pay suppliers, including Precision, in the event they are unable to access the capital markets to fund their business operations.

Sales of additional Common Shares could negatively affect the value of the Common Shares.
Precision may issue additional Common Shares in the future to fund the requirements of Precision and other entities now or hereafter owned directly or indirectly by Precision. Such additional Common Shares may be issued without the approval of Shareholders. Shareholders have no pre-emptive rights in connection with such additional issues. The Board of Directors has discretion in connection with the price and the other terms of the issue of such additional Common Shares. See "Description of Capital Structure – Description of Common Shares".

The price of Common Shares may experience volatility.
The price of Common Shares may be volatile. Some of the factors that could affect the price of the Common Shares are increases or decreases in revenue or earnings, changes in revenue or earnings estimates by the investment community and speculation in the press or investment community about Precision's financial condition or results of operations. General market conditions and Canadian, United States or international economic factors and political events unrelated to the performance of Precision may also affect the price of Common Shares. For these reasons, investors should not rely on past trends in the price of Trust Units or Common Shares to predict the future price of Common Shares or Precision's financial results.

Asset valuation variability could negatively affect the value of the Common Shares.
The net asset value of the assets of Precision from time to time will vary depending upon factors which are beyond the control of Precision. The trading price of the Common Shares also fluctuates due to factors beyond the control of Precision and such trading prices may be greater or less than the net asset value of Precision assets.

Precision expects to maintain its status as a "foreign private issuer" in the United States and thus will be exempt from a number of rules under the Exchange Act and will be permitted to file less information with the SEC than a company incorporated in the United States.

As a "foreign private issuer," Precision is exempt from certain rules under the Exchange Act that impose disclosure requirements, as well as procedural requirements, for proxy solicitations under Section 14 of the Exchange Act. Precision's directors, officers and principal shareholders are also exempt from the reporting and "short-swing" profit recovery provisions of Section 16 of the Exchange Act. Moreover, Precision is not required to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act, nor is Precision generally required to comply with Regulation FD, which restricts the selective disclosure of material non-public information. Accordingly, there may be less information concerning Precision publicly available than there is for United States public companies and such information may not be provided as promptly. In addition, Precision is permitted, under a multi-jurisdictional disclosure system adopted by the United States and Canada, to prepare its disclosure documents in accordance with Canadian disclosure requirements, including preparing its financial statements in accordance with IFRS, which differs in some respects from United States GAAP.

Precision may become a passive foreign investment company ("PFIC"), which could result in adverse United States tax consequences to United States investors.

Management does not believe that Precision is, or will be treated as, a PFIC for United States tax purposes. Since PFIC status is determined on an annual basis and will depend on the composition of Precision's income and assets from time to time, it is possible that Precision could be considered a PFIC in 2011 or a future taxable year. Such characterization could result in adverse United States tax consequences to a United States investor. In particular, a United States investor would be subject to United States federal income tax at ordinary income rates, plus a possible interest charge, in respect of any gain derived from a disposition of the Common Shares, as well as certain distributions by Precision. In addition, a step-up in the tax basis of the Common Shares would not be available upon the death of an individual holder.

If an investor acquires 10% or more of the Common Shares it may be subject to taxation under the CFC rules.

Under certain circumstances, a United States person who directly or indirectly owns 10% or more of the voting power of a foreign corporation that is a controlled foreign corporation ("**CFC**") (generally, a foreign corporation in which 10% United States shareholders own more than 50% of the voting power or value of the stock of such foreign corporation) for an uninterrupted period of 30 days or more during a taxable year and who holds any shares of the foreign corporation on the last day of the corporation's tax year must include in gross income for United States federal income tax purposes its pro rata share of certain income of the CFC even if such share is not distributed to such person. Precision is not presently a CFC, but this could change in the future.

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 Precision's 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", "plan", "estimate", "believe" and similar expressions suggesting future outcomes or statements regarding an outlook.

Forward-looking information and statements are included throughout this Annual Information Form include, but are not limited to, statements with respect to: performance of the oil and natural gas industry, including oil and natural gas commodity prices; the supply and demand for oil and natural gas; demand for Precision's equipment and services; the prospective impact of current or anticipated regulatory regimes and tax, environmental and other laws; the impact of climatic conditions; competition in markets where Precision competes; the amount of potential tax liabilities; Precision's future growth potential; and the obsolescence of Tier 3 rigs in North American markets over the next five years.

All such forward-looking information and statements are based on certain assumptions and analyses made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Corporation believes 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: fluctuations in the price and demand for oil and natural gas; fluctuations in the level of oil and natural gas exploration and development activities; fluctuations in the demand for contract drilling, well servicing and ancillary oilfield services; capital market liquidity available to fund customer drilling programs; availability of cash flow, debt and/or equity sources to fund the Corporation's capital and operating requirements, as needed; the effects of seasonal and weather conditions on operations and facilities; the existence of competitive operating risks inherent in contract drilling, directional drilling, well servicing and ancillary oilfield services; general economic, market or business conditions; changes in laws or regulations; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; and other unforeseen conditions which could impact the use of services supplied by Precision.

These and other risk factors are discussed in this Annual Information Form, the Corporation's Annual Report and Form 40-F on file with the Canadian securities commissions and the SEC and available on SEDAR at www.sedar.com and EDGAR at www.sec.gov, respectively. Except as required by law, the Corporation disclaims 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.

"Precision Drilling Corporation" is a registered trademark of Precision Drilling Corporation in Canada. "Precision Drilling" and "PD logo and design" are registered trademarks of Precision Drilling Corporation in Canada and the United States. "Grey Wolf" is a registered trademark of Precision Drilling Corporation in the United States. "Super Series" is a registered trademark of Precision Drilling Corporation in Canada and is pending in the United States. "Super Single" and "Super Triple" are registered trademarks of Precision Drilling Corporation in Canada and are pending in the United States. "High Performance, High Value" is a registered trademark of Precision Drilling Corporation in Canada and is pending in the United States. Precision owns the trademarks, service marks and trade names that it uses in connection with its business. For convenience, the trademarks, service marks and trade names referred to in this Annual Information Form or the documents incorporated by reference herein may be listed without the ®, SM and TM symbols, but such references are not intended to indicate in any way that Precision will not assert, to the fullest extent under applicable law, its rights to these trademarks, service marks and trade names.

APPENDIX 1

AUDIT COMMITTEE CHARTER

1. 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. Responsibility for accounting for transactions and internal control over financial reporting lies with senior management of the Corporation.

The requirement to have an audit committee is established in Section 171 of 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").

2. Purpose

The Committee shall have responsibility for ensuring the Corporation has developed and maintains appropriate systems for financial reporting. The Committee shall oversee:

- the integrity of financial reporting to the Shareholders and the investment community;
- the integrity of the financial reporting process, including the internal and external audit process;
- the Corporation's compliance with legal and regulatory requirements as they relate to financial reporting matters;
- the external auditor's qualifications and independence;
- Audit Services' reporting protocol 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 financial management, Audit Services function and its external auditor; and
- any other matter specifically delegated to the Committee by the Board of Directors.

3. Committee Responsibilities

The Committee shall in respect of operations of the Committee:

Governance:

- annually establish a set of objectives for the Committee for the respective calendar year, with such objectives to be reviewed and evaluated by the Committee on a quarterly basis;
- meet in in-camera at each regularly scheduled meeting with President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, External Auditor, Audit Services and an in-camera session;
- meet in separate non-management, closed sessions with any other internal personnel or outside advisors, as necessary or appropriate;
- review annually its own performance;
- review annually the continuing education efforts undertaken by the members of the Committee during the preceding year;

Oversight:

- review the interim and annual earnings releases, financial statements of the Corporation and related notes and management's discussion and analysis ("MD&A") and make recommendations to the Board of Directors for their approval;
- be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to above, and periodically assess the adequacy of those procedures;
- review and discuss with Management and the external auditor, as applicable, (a) all critical accounting policies and practices to be used in the annual audit, (b) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's 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 International Financial Reporting Standards ("IFRS") methods on the financial statements of the Corporation 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 Corporation'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 Corporation and other financial disclosures; (g) any reserves, accruals, provisions or estimates that may have a significant effect upon the financial statements of the Corporation; (h) 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 Corporation and their impact on the reported financial results of the Corporation; and (i) 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 any legal matter, claim or contingency that could have a significant impact on the financial statements of the Corporation, the Corporation'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 Corporation'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 findings report of the external auditor before the release of interim financial statements of the Corporation;
- in coordination with the Corporate Governance, Nominating and Risk Committee's oversight of risk, 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;
- discuss with Management and the external auditors any accounting adjustments that were noted or proposed by the external auditors or Audit Services but were not adopted (as immaterial or otherwise);

- review the adequacy and effectiveness of the Corporation's internal accounting and financial controls based on recommendations from Management, Audit Services 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 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, such as violations of the Joint Code of Business Conduct and Ethics;
- review with Management, Audit Services and external auditors any significant complaints received;
- review other financial information included in the Corporation's Annual Report to ensure that it is consistent with the Board of Directors' knowledge of the affairs of the Corporation 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 Corporation 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 and oversee the Corporation's Forward Looking Statement Register as maintained by the Disclosure Committee of the Corporation;
- cause to be prepared any report required by law, regulations or stock exchange requirement to be included in the Corporation's periodic reports;

Dealing with Auditors:

- approve the terms of the external auditor's engagement letter and the compensation to be paid by the Corporation to the external auditor;
- review the reasons for any proposed change in the external auditor 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, including the resolution of disagreements between Management and Audit Services or the external auditor regarding financial reporting or the application of any accounting principles or practices;
- require the external auditor and Audit Services department 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, require the external auditor to attend every meeting of the Committee held during the term of the office of the external auditor.
- 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 with the external auditor and Management the general audit approach and scope of proposed audits of the financial statements of the Corporation, 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;
- 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, Canadian Public Accountability Board or Public Company Accounting Oversight Board or other available 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 and approve 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 Shareholders;
- 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 the Corporation, and consider applicable auditor independence standards;
- ensure 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 firm itself;
- review the results of the annual external audit, including the audit report to the Corporation's Shareholders 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 annually the administrative reporting protocol for the head of Audit Services, as well as the performance and compensation for the Audit Services team;
- review and approve the annual Audit Services' internal audit plan and all major changes to the plan, the internal auditing budget and staffing ;
- consider and review the following issues with Management and the head of the Audit Services group:
  - significant findings of the Audit Services 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 Audit Services Charter; and
  - compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*;
- approve the appointment, replacement or dismissal of the head of the Audit Services group; and
- direct the head of the Audit Services group to review any specific areas the Committee deems necessary.

Insurance

- review annually the Corporation's insurance programs and pension plans, not including the Directors and Officers insurance program;

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, it is not the duty of the Committee to prepare financial statements, plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with IFRS and applicable rules and regulations. These are the responsibilities of the Management 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 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 Corporation's financial information or public disclosure.

4. Committee Structure and Authority

(a) Composition

The Committee shall consist of no fewer than three members, at least 25 percent 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 shares of the Corporation 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 applicable requirements or guidelines. 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 applicable requirements or guidelines.

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 or Canadian residency requirements are not met. 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 and minimum Canadian residency requirements are met. 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 shareholders of the Corporation after his or her election or until his or her successor shall be duly qualified and appointed.

(c) Quorum

A majority of the Committee with at least 25 percent resident Canadians, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to each other, shall constitute a quorum.

(d) Review of Charter

The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate, and recommend changes to the Board of Directors. The Committee shall reference this Charter in establishing its annual goals and meeting objectives. The Committee will approve the form of disclosure of this Charter.

(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 on matters considered by the Committee, its recommendations and performance relative to annual objectives and its Charter.

(g) Committee Chair Responsibilities

The Board of Directors shall appoint a Chair of the Committee, who is expected 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) Calling of Meetings

Any member of the Committee, the Chairman of the Board of Directors, the Corporate Secretary of the Corporation or the external auditor of the Corporation may call a meeting. The Committee shall meet at least four times per year and as many additional times as needed to carry out its duties effectively.

(i) Notice of Meetings

Notice of the time and place of every meeting shall be given in writing or electronic communication to each member of the Committee at least 48 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

(j) Procedure, Records and Reporting

Subject to any statute or articles or by-laws of the Corporation, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board of Directors, generally not later than the next scheduled meeting of the Board of Directors that follows the Committee meeting. In discharging its responsibilities, the Committee shall have full access to any relevant records of the Corporation.

(k) Attendance of Others at Meetings

The Committee may request any officer or employee of the Corporation, members of Audit Services, the Corporation's legal counsel, or any external auditor, 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 Audit Services and the external auditor.

(l) Outside Experts and Advisors

The Committee may retain any outside expert or advisor, including but not limited to, legal, accounting, financial or other consultants, at the Corporation's expense, in order to permit the Committee to carry out its duties. The Committee will assure itself as to the independence of any outside expert or advisor.

Approved effective as of October, 2011.

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Management's Discussion and Analysis

On June 1, 2010, as the result of a Plan of Arrangement approved by the holders of trust units of Precision Drilling Trust (the "Trust") and the holders of Class B limited partnership units of Precision Drilling Limited Partnership, the Trust converted from an open-ended income trust to a corporation, "Precision Drilling Corporation". Precision Drilling Corporation (the "Corporation" or "Precision") as the successor in interest to the Trust was accounted for as a continuity of interest whereby the consolidated financial statements reflect the financial position, earning results and cash flows as if Precision Drilling Corporation had always carried on the business formerly carried on by the Trust.

This Management's Discussion and Analysis ("MD&A"), prepared as at March 9, 2012 focuses on the Consolidated Financial Statements, and pertains to known risks and uncertainties relating to the oilfield services sector. This discussion should not be considered all-inclusive, as it does not include all changes regarding general economic, political, governmental and environmental events. Additionally, other events may or may not occur which could affect Precision in the future. In order to obtain an overall perspective, this discussion should be read in conjunction with the "Cautionary Statement Regarding Forward-Looking Information and Statements" and the audited Consolidated Financial Statements and related notes. Additional information relating to the Corporation, including the Annual Information Form, has been filed with SEDAR and is available at www.sedar.com.

Effective January 1, 2011, Precision began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS"). The Consolidated Financial Statements and comparative information have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 1, "Presentation of Financial Statements", as issued by the International Accounting Standards Board. Previously, the Corporation prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Previous CGAAP"). Under IFRS 1 Precision was required to restate fiscal 2010 as if it had always followed IFRS. In the following discussion when 2009 financial information is presented it is prepared using Previous CGAAP. For a discussion on the differences affecting Precision's financial information see "Transition to International Financial Reporting Standards" on page 36.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

This Annual Report 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", "plan", "estimate", "believe" and similar expressions suggesting future outcomes or statements regarding an outlook.

Forward-looking information and statements are included throughout this Annual Report including under the headings "Overview", "Resources Needed to Succeed in a Cyclical Business" and "Overview of Business Risks" and include, but are not limited to, the following: Precision's planned capital expenditures and anticipated uses of capital; the timing of such expenditures; plans to pursue organic growth and acquisition opportunities; that Precision will be able to complete its organic growth plans using cash flow from operations and cash on its balance sheet; the expected commencement dates for drilling operations in Saudi Arabia; the potential for a further reduction in demand for natural gas drilling; the obsolescence of Tier 3 rigs in North American markets over the next five years; the anticipated effects of changes to the Corporation's depreciation policy on its Tier 3 rigs; that Precision's average dayrates will rise throughout 2012 if industry spot dayrates are stable; that the majority of personnel wage increases will be recovered through higher dayrates being charged to Precision's customers; that global dependency on oil and gas will remain for decades going forward; the expected delivery dates for coiled tubing units; that additional new build rigs will continue to enter market areas where Precision operates; and that Precision will remain in compliance with financial covenants under its revolving credit facility and have complete access to credit lines during 2012.

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: fluctuations in the price and demand for oil and natural gas; fluctuations in the level of oil and natural gas exploration and development activities; fluctuations in the demand for contract drilling, well servicing and ancillary oilfield services; capital market liquidity available to fund customer drilling programs; availability of cash flow, debt and/or equity sources to fund the Corporation's capital and operating requirements, as needed; the effects of seasonal and weather conditions on operations and facilities; the existence of competitive operating risks inherent in contract drilling, directional drilling, well servicing and ancillary oilfield services; general economic, market or business conditions; changes in laws or regulations; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; and other unforeseen conditions which could impact the use of services supplied by Precision.

These and other risk factors are discussed in the Annual Information Form and Form 40-F on file with the Canadian securities commissions 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, the 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 Report are expressly qualified by this cautionary statement.

Overview

SELECT FINANCIAL AND OPERATING INFORMATION

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

Years ended December 31,	2011	% Increase (Decrease)	2010	% Increase (Decrease)	2009[1]	% Increase (Decrease)
Revenue	**$1,951,027**	**36.5**	$1,429,653	19.4	$1,197,446	8.7
EBITDA[2]	**695,064**	**59.8**	434,908	6.9	407,001	(6.8)
EBITDA % of revenue	**35.6%**		30.4%		34.0%	
Net earnings	**193,477**	**344.4**	43,535	(73.1)	161,703	(46.6)
Cash provided by operations	**532,772**	**74.0**	306,264	(39.3)	504,729	46.8
Funds provided by operations[3]	**592,388**	**46.6**	404,165	21.9	331,556	(22.6)
Investing activities:						
Capital spending:						
Expansion capital expenditures	**455,302**	**539.7**	71,179	(56.4)	163,132	(4.1)
Upgrade and maintenance capital expenditures	**271,055**	**158.8**	104,722	245.6	30,303	(49.0)
Proceeds on sale	**(15,983)**	**30.4**	(12,256)	(23.3)	(15,978)	53.0
Net capital spending	**710,374**	**334.1**	163,645	(7.8)	177,457	(19.0)
Business acquisitions (net of cash acquired)	**92,886**	**n/m**	–	–	–	(100.0)
Earnings per share:						
Basic	**0.70**	**337.5**	0.16	(75.4)	0.65	(70.9)
Diluted	**$ 0.67**	**346.7**	$ 0.15	(76.2)	$ 0.63	(71.7)
Contract drilling rig fleet	**337**	**(5.1)**	355	0.9	352	(5.9)
Drilling rig utilization days:						
Canada	**37,970**	**21.8**	31,176	46.9	21,229	(38.4)
United States	**37,887**	**16.8**	32,450	43.1	22,672	183.2
International	**702**	**16.6**	602	(15.2)	710	346.5
Service rig fleet	**207**	**(5.9)**	220	–	220	–
Service rig operating hours:						
Canada	**315,536**	**7.3**	294,126	33.9	219,649	(39.2)

n/m – calculation not meaningful.

(1) Financial information prepared using Previous CGAAP.

(2) EBITDA is an additional IFRS measure and is defined as earnings before income taxes, other items, loss on asset decommissioning and depreciation and amortization. See page 43.

(3) Funds provided by operations is an additional IFRS measure. See page 43.

Financial Position and Ratios

(Stated in thousands of Canadian dollars, except ratios)

	December 31, 2011	December 31, 2010	January 1, 2010
Working capital	**$ 610,429**	$ 458,003	$ 314,262
Working capital ratio	**2.4**	3.1	3.3
Long-term debt[1]	**$ 1,239,616**	$ 804,494	$ 748,725
Total long-term financial liabilities	**$ 1,267,040**	$ 834,813	$ 855,532
Total assets	**$ 4,427,874**	$ 3,564,540	$3,454,935
Enterprise value[2]	**$ 3,528,046**	$ 2,993,083	$2,543,075
Long-term debt to long-term debt plus equity[1]	**0.37**	0.29	0.29
Long-term debt to cash provided by operations[1]	**2.33**	2.63	n/a
Long-term debt to enterprise value[1]	**0.35**	0.27	0.29

(1) Excludes current portion of long-term debt which is included in working capital.
(2) Share price as at the respective date multiplied by the number of shares outstanding plus long-term debt minus working capital. See page 43.
n/a – calculation not applicable.

OVERVIEW

Precision entered 2011 with three primary objectives:

1. Continue to deliver the High Performance, High Value services that customers require to drill the technically challenging wells of today's unconventional resource play exploitation;
2. Focus on our North American organic growth program; and
3. Improve financial flexibility to position the Corporation to seize growth opportunities.

In response to these objectives Precision:

- Completed the 2010 new build rig program of nine drilling rigs and undertook its 2011 new build rig program of 42 rigs, all of which have been fully contracted. As of March 9, 2012, the entire 2010 new build rig program has been completed and 18 rigs of the 2011 new build program are complete and working and the remaining 24 are projected to be completed and working by the end of the fourth quarter of 2012. Precision's 2012 new build rig program currently stands at seven rigs, of which five are contracted and expected to be completed by the end of 2012. Total capital spending for 2011 was $726 million of which $455 million related to expansion initiatives. For 2012, the Corporation estimates $1.1 billion in capital expenditures including $702 million on expansion initiatives.
- Upgraded 18 drilling rigs during 2011 of which approximately half were rig tier upgrades. Precision's engineering group provides design modification to fit customers' complex drilling needs and requirements. Precision decommissioned 36 Tier 3 drilling rigs and 13 well servicing units to high-grade its fleet.
- Expanded its directional drilling experience and presence in North America during 2011 by acquiring two directional drilling service providers based in the United States: Drake Directional Drilling, LLC and Drake MWD Services, LLC, and one directional drilling service provider in Canada: Axis Energy Services Holdings Inc. These acquisitions along with organic growth provide Precision the current capacity to run concurrently 70 directional jobs.
- Completed a private placement of US$400 million aggregate principal 6.50% senior unsecured notes due 2021. Precision is using the net proceeds from this offering to fund its capital expenditure program and for general corporate purposes. Also during the year, Precision completed a private placement of C$200 million aggregate principal 6.50% senior unsecured notes due 2019. The proceeds of this offering were used in effect to repay the $175 million 10% senior unsecured notes.
- Over the past three years, has taken several steps to enhance liquidity and improve the balance sheet. An improved balance sheet increases financial flexibility and ultimately provides the financial liquidity to be able to continue to seize opportunities to profitably grow the Corporation. Precision plans on enhancing shareholder value through organic growth and acquisitions in future years.

VISION AND STRATEGY

Precision's 2012 priorities are threefold:

1. Execute our High Performance, High Value strategy. Continue to deliver safe, reliable, predictable and repeatable performance with high environmental responsibility and community standards.
2. Execute on existing organic growth opportunities including contracting additional new build and upgraded drilling rigs, adding assets and people to the directional drilling and Completion and Production Services businesses and pursuing additional rig deployments internationally. Continue to evaluate accretive acquisitions.
3. Build our brand. Continue to promote Precision's High Performance, High Value brand with customers, employees, investors and within the communities in which we operate.

Precision's vision is to be recognized as the High Performance, High Value provider of services for global energy exploration and development. Precision's people, systems and equipment are capable of servicing customer requirements efficiently and in a safe manner with consistent results, reducing costs for our customers over time. Precision's unique combination of superior people, operational scale, drilling technology, vertical integration and established and proven business systems provides a strong competitive platform for Precision in the Canadian and United States markets and for international expansion.

Precision's corporate and competitive growth strategies are designed to optimize resource allocation and differentiate Precision from the competition, thereby generating value for investors. The organic growth into the United States in 2007 and 2008 was the first step in expanding operations outside of Canada. This first step was followed by the acquisition of Grey Wolf, Inc. in late 2008; the improvement of the balance sheet and debt restructuring during 2009 through early 2011; and the conversion to a corporation in 2010. In 2011 the focus shifted to organic growth by building new Super Series drilling rigs, high-grading equipment to meet the demands of today's unconventional market and expansion of the directional drilling business. Precision continues to pursue profitable growth avenues and business improvements to build its reputation as a High Performance, High Value provider of services.

Precision also expects that during 2012 the Corporation will be able to complete its organic growth plans using cash flow from operations and cash on the balance sheet. Existing debt facilities are in place to allow the Corporation flexibility to seize opportunities should they arise. Precision is cognizant of the cyclicality of the oilfield services industry and will be prudent in its investment and use of financial resources.

In terms of business segments, Precision sees opportunities for growth in the Contract Drilling Services land drilling rig fleet both in North America and internationally. Precision sees unconventional drilling as the primary opportunity for Precision in the North American market place. Unconventional resource development requires advanced Tier 1 drilling rigs and other highly developed services that promote the drilling of reliable, predictable and repeatable horizontal wells. Profitable growth opportunities for the Completion and Production Services segment lie in the completion and production work associated with unconventional wells. Precision is well-positioned to serve this market with specialized rental equipment, coiled tubing services and additional service lines that support completion and production activities in unconventional resource plays.

During 2012, Precision plans to continue to build on its High Performance, High Value vision. The Corporation will continue to focus on enhancing safety processes and standards, improving the overall equipment base including new build and upgraded drilling rigs, and refining Precision's established and proven systems. Precision continues to meet the challenge of increasing performance demands of our customers as they pursue the development of technically challenging unconventional resource plays. In 2012, Precision plans to continue to make investments in recruiting, training and retaining the best people and challenge those within the Precision family to continue to seize value enhancing opportunities.

OUTLOOK

Precision has a strong portfolio of term customer contracts that provides a base level of activity and revenue. As at March 9, 2012, Precision has 145 rigs committed under term contracts in North America for the first quarter of 2012, 130 rigs contracted for the second quarter of 2012 and 98 for the third quarter of 2012. In Canada, term contracted rigs normally generate 250 utilization days per rig year due to the seasonal nature of well access, whereas in the United States they normally generate 365 utilization days per rig year in most regions.

For 2012, based on drilling rig contracts as at March 9, Precision has 54 rigs in Canada under term contract and 63 rigs in the United States and internationally. For 2013, Precision has term contracts in place for an average of 75 rigs, with 44 in Canada and 31 in the United States and internationally. During the first quarter of 2012 the first of three Saudi Arabia drilling rigs began operating with the final two expected to commence drilling in the second quarter of 2012.

Capital expenditures are expected to be approximately $1.1 billion for 2012 and include:

- $702 million for expansion capital which includes the cost to complete 28 drilling rigs from the 2011 new build rig program and the seven new build rigs from the 2012 new build program;
- $182 million for upgrade capital which includes the upgrade of approximately 14 rigs and purchase of long-lead items; and
- $244 million for sustaining and infrastructure expenditures which is based upon currently anticipated activity levels.

Expansion and upgrade capital includes the purchase of long-lead items for the Corporation's capital inventory which includes top drives, drill pipe, control systems, engines and other long-lead items, which can be used for North American or international new build rig opportunities and rig tier upgrades. Precision expects that the $1.1 billion of capital expenditures in 2012 will consist of $950 million for the Contract Drilling segment and $178 million for the Completion and Production Services segment.

To date in 2012, there has been higher drilling activity in Canada and the United States than in the prior year. According to industry sources, as at March 9, 2012, the United States active land drilling rig count was up about 14% from the same point in the prior year and has averaged 1,946 active land rigs to date in 2012 compared with 1,679 in the same period of 2011. In Canada as at March 9, 2012, the active land drilling rig count was up about 4% from the same point in the prior year and has averaged 647 active land rigs to date in 2012 compared with 600 in the same period of 2011. With the year-over-year improvements in rig utilization, there have been continued improvements in spot market dayrates charged to customers in both Canada and the United States.

Natural gas production in the United States has remained very strong despite reduced natural gas drilling activity over the past two years. The United States natural gas storage levels as at March 2, 2012 were 48% above the five-year average and 44% above storage levels of a year ago. This also strongly influences Canadian activity since Canada exports a significant portion of its natural gas production to the United States. The increase in oil and liquids rich natural gas drilling in areas like the Cardium, Bakken and Eagle Ford have been strong and the United States oil rig count as at March 9, 2012 is 55% higher than it was a year ago while in Canada the oil rig count is 9% higher.

Precision has more equipment working in oil and liquids plays than at any time in the last 20 years. With high storage levels, consistent production and the view that North America has an oversupply of natural gas, natural gas prices have reached 10-year lows. To date, customer changes in natural gas drilling plans are reflected in a decline in the rig count targeting dry gas plays. If low natural gas prices continue, Precision and the North American drilling industry could see a further reduction in demand for natural gas drilling.

Precision, along with the land drilling industry, is in the process of upgrading the fleet of drilling rigs through newly built rigs and upgrading of existing equipment. Precision believes that this "retooling" of the industry wide fleet will result in the virtual obsolescence of Tier 3 rigs in the North American markets over the next five years. As such, in the fourth quarter of 2011 Precision decommissioned 36 Tier 3 drilling rigs and 13 service rigs from its fleet. Additionally, Precision is changing its depreciation policy on its remaining Tier 3 rigs beginning in 2012. This new policy will change the depreciation method on the Tier 3 rigs that are not expected to be upgraded from a unit of production method to the straight-line method over four years. Therefore, the Tier 3 rigs will be depreciated to their estimated salvage value over the next four years to align with our estimated economic lives of those rigs. Precision estimates that in 2012 this will add approximately $17 million of depreciation over what the current unit of production method would have provided.

In 2011 the industry experienced higher drilling activity in Canada and the United States than the prior year. The demand for energy has been rising as many global economies continue to improve. A combination of increased liquidity in the capital markets and higher oil prices are providing Precision's customers capital to fund drilling programs. The drilling sector in both Canada and the United States is experiencing a period of year-over-year improvements in utilization. With the year-over-year improvements in rig utilization, there has been continued improvement in spot market dayrates charged to customers in Canada and in the United States. If industry spot dayrates are stable, Precision's average dayrates are expected to rise throughout 2012 as new build drilling rigs enter the Corporation's fleet.

Due to the increased demand for drilling rigs, Precision is experiencing increased demand for rig personnel. On October 1, 2011 a wage increase for both the Canadian and US rig based personnel went into effect. Precision expects to recover the majority of these wage increases through higher dayrates charged to our customers.

Precision continues to believe the future of the global oil and gas industry remains promising. With the scheduled delivery of 33 new build drilling rigs, approximately 14 upgraded rigs, the addition of coiled tubing service rigs and rental equipment focused on horizontal completions, 2012 represents an opportunity for Precision to further build on our value to customers through delivery of High Performance, High Value services that deliver cost savings to customers and strong margins to Precision.

As of January 1, 2011, Precision transitioned its financial statements to International Financial Reporting Standards ("IFRS") and future financial statements will be prepared as if Precision had always followed these standards. Certain first-time adoption elections were made which impacted the opening balance sheet amounts and those key first-time elections are discussed later in this report under the section "Transition to International Financial Reporting Standards."

ABOUT PRECISION

Precision is a leading provider of safe and High Performance, High Value services to the oil and gas industry. Precision provides customers with access to an extensive fleet of contract drilling rigs, directional drilling services, well service & snubbing rigs, coiled tubing services, camps, rental equipment, and wastewater treatment units backed by a comprehensive mix of technical support services and skilled, experienced personnel.

Precision is headquartered in Calgary, Alberta, Canada and is listed on the Toronto Stock Exchange under the trading symbol "PD" and on the New York Stock Exchange under the trading symbol "PDS".

PRECISION

Contract Drilling Services	**Completion and Production Services**
Drilling Rig Operations:	Service Rigs, Snubbing and Coiled Tubing Operations
¡ Canada	Equipment Rentals
¡ United States	Wastewater Treatment
¡ International	Camps and Catering
Vertical Business Support Systems	
¡ Procurement & Distribution ¡ Manufacture & Repair ¡ Engineering ¡ Technology & Technical	
Corporate Support	
¡ Governance ¡ Operations ¡ Functions	

Resources Needed to Succeed in a Cyclical Business

Precision operates in the energy services business which is an inherently challenging cyclical industry. There are a number of business risks associated with the volatility of an industry that is dependent on global and regional factors. Many of the risks are referenced later in this report.

To excel in this environment, Precision operates through a unique business model to control risk and optimize performance. The model is directly linked to competitive strategy and is evidenced by Precision's operating capabilities. Precision's operating divisions deploy assets and services that are capital intensive, technology oriented and people dependent. The services provided need to be completed in a safe manner while taking into consideration their environmental impact. These factors in combination lead to operating proficiency and profitably throughout the business cycle and may lead to growth opportunities to diversify and increase market share.

Through this section, management is presenting its views of Precision's business and the resources needed to succeed. Understanding the oil and gas industry and the factors that impact demand for oilfield services is important in assessing risk factors that affect Precision's long-term strategy and financial performance.

FUNDAMENTALS OF THE ENERGY SERVICES INDUSTRY

Management believes that oil and natural gas are low cost energy sources for consumers and the need to replace existing production levels will remain for decades going forward. Alternate energy sources are necessary, but will take time and technology for economics and infrastructure to develop.

The shift from conventional to unconventional oil and natural gas production requires higher capacity equipment and increased technical expertise. The gradual, steady shift in the drilling of more horizontal wells and fewer vertical wells is evidence of this trend.

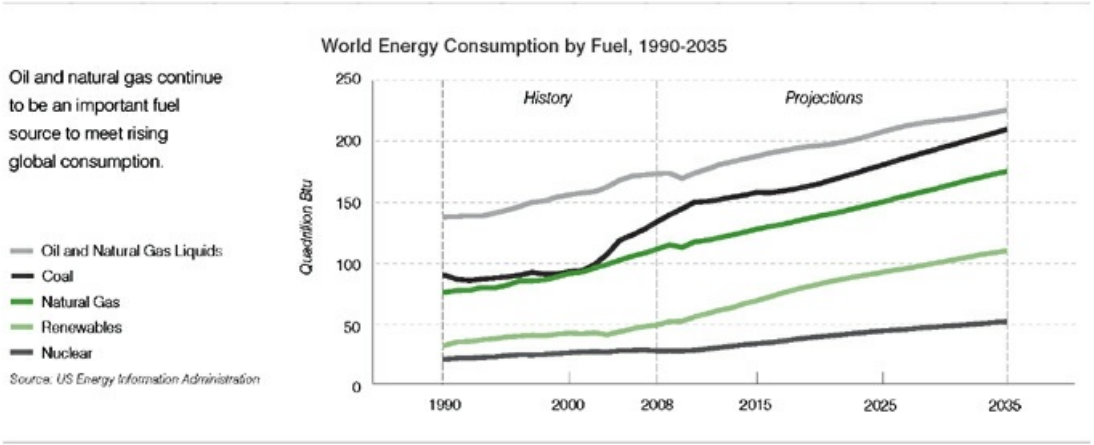
Since the mid-2000's multi-stage horizontal completion techniques have been re-opening many basins to renewed drilling in North America. These techniques have enabled the industry to extract greater production from known resource regions previously thought to be uneconomical.

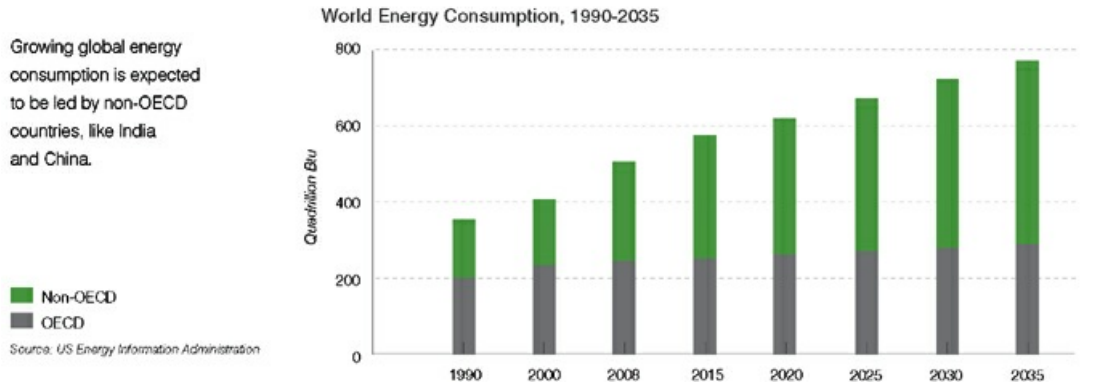
Global Markets

Global economic growth and prosperity drives energy consumption. Crude oil and to a lesser extent natural gas are the most dominant and versatile sources of energy in developed countries while crude oil and coal are the dominant sources of energy in developing countries. Oil and its by-products are currently the most important fuel for the transportation industry as there are few alternatives that can compete economically. Oil and natural gas are major fuel sources for generating heat and electricity and are critical building blocks for countless consumer products.

From a reference year of 2008, energy consumption is projected by the United States government Energy Information Administration ("EIA") to increase 53% by 2035 with oil, natural gas and coal meeting approximately 80% of global demand, as depicted in the graphs below. World oil consumption for transportation is predicted to rise about 1.4% per year during this period due largely to growing demand in China, India and other developing countries. Delivering reliable and affordable energy for these fast-growing and upwardly mobile populations is a major challenge, with security of supply an important theme.

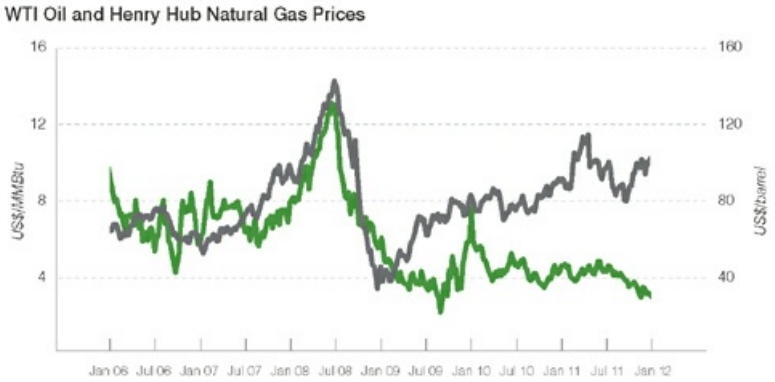
As a result of its relatively low carbon content compared with oil and coal and higher oil prices, consumers are turning to natural gas. The EIA is forecasting world natural gas consumption to increase approximately 40% by 2035. Increasing supplies of unconventional natural gas, particularly in North America but elsewhere as well, help keep global markets well supplied. As a result, natural gas prices remain more competitive than oil prices, supporting the growth in projected worldwide gas consumption.





Oil prices moved lower with the economic crisis of 2008 but have been increasing since the beginning of 2009 as supply and demand fundamentals have tightened. Natural gas prices in North America have been below most global price points for liquefied natural gas ("LNG") and LNG imports to the United States market have remained at relatively low levels. As highlighted in the chart below, oil prices have recovered from the lows in the first quarter of 2009 with steady improvement, whereas natural gas prices, with increased shale gas production, have recently dipped to levels that existed during the third quarter of 2009.

The historical relationship between oil and natural gas has diverged.



During this period of low natural gas prices, one way producers are making natural gas targeted drilling more profitable is by focusing on liquids rich natural gas. Liquids rich natural gas is often referred to as wet natural gas and contains a blend of gases that are separated from natural gas through processing. Generally such liquids consist of propane, ethane, butane, isobutene and condensate. Commodity prices for ethane, propane and butane normally vary with the price of oil and typically producers receive 60% – 65% of the oil price. Most liquids rich natural gas in North America is found in the deep basin formations at depths in excess of 2,000 metres.

North American Markets

The economics of the oilfield service industry are linked to these global fundamentals in combination with regional opportunities. Important regional drivers for the industry in North America include the underlying hydrocarbon make-up of the various basins and the existence of established, competitive and efficient service infrastructure.

As commodity prices vary so does industry cash flow to fund exploration and development. Increasingly, the benefits of new drilling and completion technology have driven customers to drill more complex wells in emerging and well-known basins throughout North America. Precision has expanded its rig count in many of these basins and is poised to benefit as customer demand increases. As depicted in the map of North America, Precision's drilling rig fleet is positioned in virtually every resource play from northern Canada to the southern United States.

Precision has a presence in the most active unconventional resource plays across North America.



Economic Drivers

Providing oil and natural gas products to consumers involves a number of players, each taking on different risks in the exploration, production, refining and distribution processes. Exploration and production companies, Precision's customers, assume the risk of finding hydrocarbons in reservoirs of sufficient size to economically develop and produce. The economics are dictated by the current and expected future margin between the cost to find and develop hydrocarbons and the eventual price of these products; the wider the margin, the greater the incentive to undertake these risks.

Exploration and development activities include acquiring access to prospective lands, seismic surveying to detect hydrocarbon bearing structures, drilling wells and completing successful wells for production. Exploration and production companies hire oilfield service companies to perform the majority of these tasks. The revenue of an oilfield service company is part of the finding and development costs for an exploration and production company.

The economics of an oilfield service company are largely driven by the price of crude oil and natural gas and its byproducts realized by its customers. Since oil can be transported relatively easily and cheaply, it is priced in a more global market influenced by an array of economic and political factors while natural gas continues to be priced in continental markets.

As referenced above, drilling dynamics have changed with recent technological advancements in fracturing, stimulation and horizontal drilling that have brought about a shift from the development of conventional to the development of unconventional natural gas and oil reservoirs in North America. This is especially prevalent in the exploitation of existing and emerging shale gas plays in the United States where takeaway capacity improvements have occurred. The application of these new technologies in unconventional drilling in North America has provided significant productivity gains in certain United States shale gas plays.

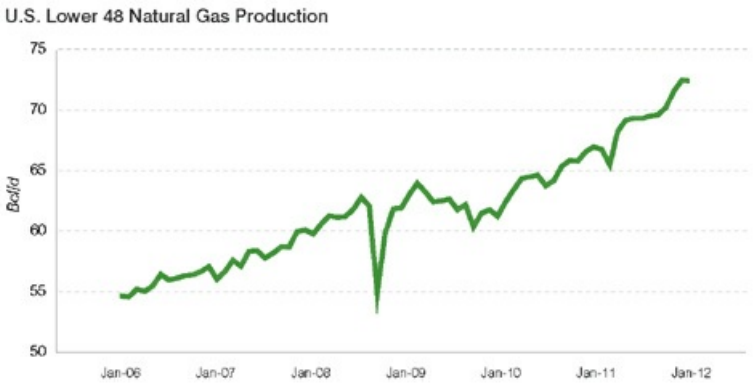
These technological improvements are evident in the proportion of wells drilled using directional and horizontal well programs. As shown in the graph below, there is a trend away from vertical wells to the more demanding requirements of directional/horizontal well programs is very consistent. Precision's rig fleet in Canada has been engaged by customers on these wells to a greater degree than industry, demonstrating Precision's high performance capabilities.

Precision's capabilities are demonstrated by the high proportion of rigs drilling complex wells.



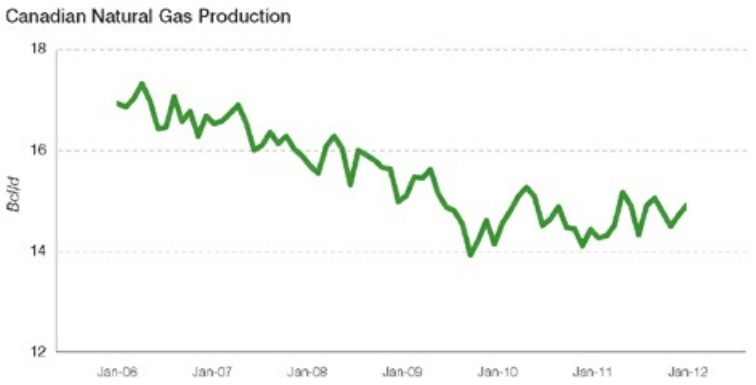
Technological innovations have been a major factor in the natural gas production increase for the United States as shown in the graph below. With these productivity gains the United States has become less reliant on Canada as a source of natural gas supply.

Technology changes have resulted in improved productivity.



For Canadian natural gas production lower drilling levels have been in play for a longer period and declining production is clearly evident. The lower drilling activity in Canada was influenced by reduced consumption in the United States and by low cost new production growth from shale gas basins in the United States. The graph below depicts the decline in daily Canadian natural gas production due to factors previously discussed.

Due to less drilling, Canadian natural gas production has been declining.



Drilling Rig Activity in Canada and the United States

The United States active drilling rig count increased from about 1,600 rigs in 2007 to a peak of about 1,980 rigs in the fourth quarter of 2011 following a low in 2009 of about 830 rigs. Additionally, the demand for high performance drilling rigs is further supported by operating specifications associated with increased exploitation of unconventional resource basins in North America. Demand for high performing drilling rigs continues to grow and garner premium pricing.

As noted in the following graphs, there has been a significant trend away from natural gas directed to oil directed drilling that started in 2010.



As illustrated above, Canadian rig activity has seen a shift in drilling targets away from natural gas drilling to oil. Canadian rig activity fluctuates with the seasons, an event which generally does not occur in the United States except in northern states.

OPERATING CAPABILITIES

Precision prides itself on providing quality equipment operated by experienced and well trained crews. Additionally, Precision strives to align its capabilities with evolving technical requirements associated with more complex well bore programs. Customer relationships are fundamental to Precision's success and the development of a High Performance, High Value brand reputation is based largely on Precision's capability to deliver.

High Performance Drilling Rigs

Precision is focused on providing efficient, cost-reducing drilling technology. Design innovations and technology improvements capture incremental time savings during all phases of the well drilling process, including multi-well pad capability and mobility between wells.

The versatile Super Single™ design comprises technical innovations in safety and drilling efficiency in slant or directional drilling on single or multiple well pad locations in shallow to medium depth wells. Super Single™ rigs utilize extended length tubulars, integrated top drive, innovative unitization to facilitate quick moves between well locations, a small footprint to minimize environmental impact and enhanced safety features such as automated pipe handling and remotely operated torque wrenches.

A scaled-down version without slant capability, the Super Single™ Light, also features an integrated top drive and automated pipe handling and is unitized and trailer mounted to reduce the load count for efficient moving, rig up and tear down for the shallow well depth market.

Triple rigs have greater hoisting capacity and are used in deeper exploration and development drilling. Precision's Super Triple electric rigs (ST-1200 and ST-1500) are designed to keep the load count as low as possible using widely available conventional rig moving equipment. Power capabilities are a major design criterion for the new Super Triple rigs. Drilling productivity and reliability with AC power drive systems provides added precision and measurability along with a computerized electronic auto driller feature that precisely controls weight, rotation and torque on the drill bit. These rigs use extended length drill pipe, an integrated top drive, automated pipe handling with iron roughnecks and control automation off the rig floor.

During 2011 Precision high-graded its drilling rig fleet through the delivery of 19 Tier 1 new build drilling rigs, the upgrade of 18 drilling rigs of which about half were Tier upgrades and the decommissioning of 36 Tier 3 rigs. As at December 31, 2011, 80% of Precision's 337 drilling rigs were Tier 1 or 2 rigs.

Large Diversified Rig Fleets

Precision's large diverse fleet of rigs is strategically deployed across most active regions in North America including all the major prolific unconventional oil and gas fields. Geographic proximity and fleet versatility make Precision a versatile and complete provider of High Performance, High Value services to its customers. Precision's fleet can drill virtually all types of on-shore conventional and unconventional oil and natural gas wells in North America.

Precision's service rigs provide completion, workover, abandonment, well maintenance, high pressure and critical sour gas well work and well re-entry preparation across the Western Canada Sedimentary Basin. The rigs are supported by three field locations in Alberta, two in Saskatchewan, one in Manitoba and one in British Columbia.

Snubbing complements traditional natural gas well servicing by allowing customers to work on wells while they are pressurized and production has been suspended. Precision has two types of snubbing units – rig assist and self-contained. Self-contained units do not require a service rig on site and are capable of snubbing and performing many other well servicing procedures.

In recognition of the growing need to service the unconventional horizontal wells that are becoming more common, Precision is investing in coiled tubing units which have the ability to service horizontal wells by pushing the tubing rather than relying on gravity. Precision deployed its first unit to the field in the first quarter of 2012 and expects to take delivery of up to eight additional units by the end of 2012.

Inventory of Ancillary Equipment

Precision has a large inventory of equipment, including portable top drives, loaders, boilers, tubulars and well control equipment, to support its fleet of drilling and service rigs to meet customer requirements. Precision also maintains an inventory of key rig components to minimize downtime in the event of equipment failures.

In support of oilfield operations, LRG Catering supplies meals and provides accommodation for crews at remote worksites. Terra Water Systems plays an essential role in providing water treatment services as well as potable water production plants for LRG Catering and other camp facilities. Precision Rentals supplies customers with an inventory of specialized equipment and wellsite accommodations.

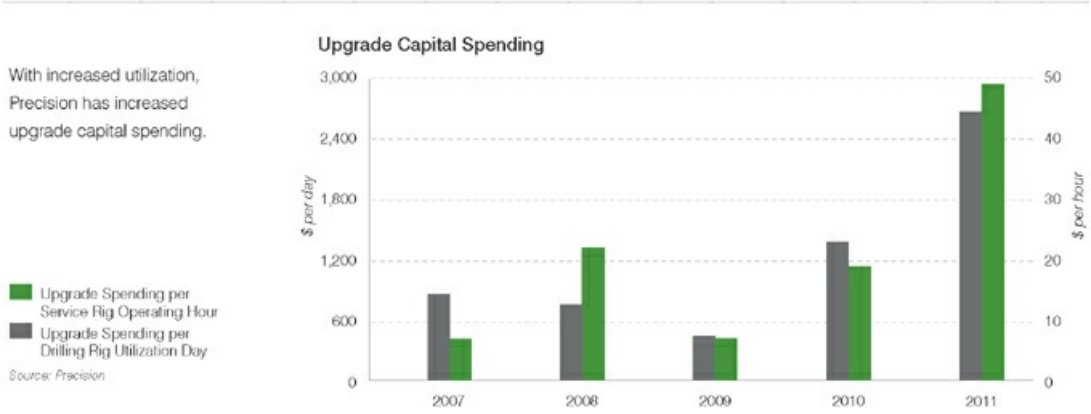
Safety, Environmental and Employee Wellness Programs

Safety, environmental stewardship and employee wellness is critical for Precision and its customers. The focus on working safely is one of Precision's most enduring values. The core of Target Zero – Precision's safety vision for eliminating workplace incidents – is a fundamental belief that all injuries can be prevented. In 2011, 242 of Precision's drilling rigs and 175 of Precision's service rigs and snubbing units achieved Target Zero. Precision continues to embrace technological advancements which make operations safer.

Well-maintained Equipment

Precision consistently reinvests capital to sustain and upgrade existing property, plant and equipment. Equipment repair and maintenance expenses are benchmarked to activity levels in accordance with Precision's maintenance and certification programs. Precision employs computer systems to track key preventative maintenance indicators for major rig components, to record equipment performance history, schedule equipment certifications, reduce downtime and allow for better asset management.

Precision benefits from internal services for equipment certifications and component manufacturing provided by Rostel Industries and for standardization and distribution of consumable oilfield products through Columbia Oilfield Supply in Canada and Grey Wolf Supply in the United States.



With increased activity upgrade capital spending was increased beginning in 2010 after a three year period of challenging conditions that limited the economics associated with upgrade opportunities. Precision does maintain a continuous upgrade program of essential elements such as tubulars and engines.

Employees

As a service company, Precision is only as good as its people. An experienced, competent crew is a competitive strength and highly valued by customers. To recruit field employees, Precision has centralized personnel, orientation and training programs in Canada while in the United States these functions are managed on a more decentralized basis to align with regional labour and customer service requirements. Precision works to ensure future field personnel requirements are met through recruiting programs like "Toughnecks".

Information Systems

Precision's commitment to invest in a fully integrated enterprise-wide reporting system has improved business performance through real-time access to information across all functional areas. All of Precision's divisions operate on a common integrated system using standardized business processes across finance, payroll, equipment maintenance, procurement and inventory control.

Precision continues to invest in information systems that provide competitive advantages. Electronic links between field and financial systems provide accuracy and timely processing. This repository of rig data improves response time to customer inquiries. Rig manufacturing projects benefit from scheduling and budgeting tools as economies of scale can be identified and leveraged as construction demands increase.

KEY PERFORMANCE DRIVERS

Customer economics are dictated by the current and expected margin between the price at which hydrocarbons are sold and the cost to find and develop those products. Some of the key business, customer and industry indicators that Precision focuses on to monitor its performance are:

Safety Management

Precision's culture is built on the foundation of an all-encompassing Target Zero attitude. Precision's philosophy states that the workplace and organization can be free from injuries, equipment damage and negative environmental impact. Safety performance is a fundamental contributor to operating performance and the financial results Precision generates for shareholders. Safety is tracked through an industry standard recordable frequency statistic which is measured to benchmark successes and isolate areas for improvement. Precision has taken it to another level by tracking and measuring all injuries regardless of severity which is seen as a leading indicator for the potential of a more serious incident.

Environmental Management

Precision internally and in conjunction with its customers is continuously reviewing opportunities to better manage the consumption of non renewable resources and the environmental foot print left behind. Precision continues to apply new and improved technologies to operations which reduce the impact on the environment.

Technologies which Precision has used and continues to evaluate within its operations include:

- Heat recovery and distribution systems
- Power generation and distribution
- Fuel management
- Fuel type
- Noise reduction
- Recycling of used materials
- Use of recycled materials
- Efficient equipment designs
- Spill containment

Operating Efficiency

Precision maximizes the efficiency of operations through proximity to work sites, operating practices and versatility. Reliable and well maintained equipment minimizes downtime and non-productive time during operations. Information is gathered from daily drilling log records stored in a database and analyzed to measure productivity, efficiency and effectiveness. This analysis of downtime is an integral measure of operating effectiveness.

Key factors which contribute to lower customer well costs are:

- Mechanical downtime which is managed through preventative maintenance programs, detailed inspection processes, an extensive fleet of strategically placed spare equipment, an in-house supply chain, and continuous equipment upgrades; and
- Non-productive time, or move, rig-up and rig-out time, which is minimized by decreasing the number of move loads per rig, using lighter move loads, and using mechanized equipment for safer and quicker rig component connections.

Customer Demand

Precision's fleet is geographically dispersed to meet customer demands. Relationships with customers, industry knowledge and new well licenses provide Precision with the information necessary to evaluate its marketing strategies. The ability to provide customers with some of the most innovative and advanced rigs in the industry to reduce total well costs increases the value of the rig to the customer. Industry rig utilization statistics are also tracked to evaluate Precision's performance against competitors.

Workforce

Precision closely monitors crew availability for field operations. Precision focuses on initiatives that provide a safe and productive work environment, opportunity for advancement and added wage security through programs to retain employees. Precision relies heavily on its safety record and reputation to attract and retain employees as industry manpower shortages are often experienced in peak operating periods. Precision's successful recruiting program, Toughnecks, helps mitigate these issues.

Financial Performance

Precision maximizes revenue without sacrificing operating margins. Key financial information is unitized on a per day or per hour basis and compared to established benchmarks and past performance. Precision evaluates the relative strength of its financial position by monitoring its working capital and debt ratios. Returns on capital employed are monitored and incentive compensation is linked to returns generated compared to established benchmarks.

Specific measures, which represent in summary form the effectiveness of the factors above, are used to reward executives and eligible employees through incentive compensation plans. These measures include:

- Safety performance – total recordable incident frequency per 200,000 man-hours:

  Measure against prior year performance and current year industry performance in Canada and the United States, as applicable.

- Operational performance – rig down time for repair as measured by time not billed to customer:

  Measure against predetermined target of available billable time.

- Key field employee retention – senior field employee retention rates:

  Measure against predetermined target of retention.

- Financial performance – return on capital employed calculated as a percentage of pre-tax operating earnings divided by total assets less current liabilities:

  Measure against predetermined target percentage.

- Financial performance – total shareholder return performance against an industry peer group, including dividends, over a three year period.

  Measure against predetermined selection of competitors in peer group.

CAPITAL AND LIQUIDITY MANAGEMENT

The energy service business is inherently cyclical in nature. Precision employs a disciplined approach to minimize costs through operational management practices and a variable cost structure, to maximize revenues through term contract positions and with a focus of maintaining a strong balance sheet. This operational discipline provides Precision with the financial flexibility to capitalize on strategic acquisitions and internal growth opportunities at all points in the business cycle.

Operating within a highly variable cost structure, Precision's maintenance capital expenditures are tightly governed by and highly responsive to activity levels with additional cost savings leverage provided through Precision's internal manufacturing and supply divisions. Expansion capital for new build rig programs typically require three to four year term contracts in order to mitigate capital recovery risk.

In managing foreign exchange risk, Precision works to match the currency of its debt obligations with the currency of the supporting operations cash flows. Interest rate risk is minimized by staggering long-term debt maturities on repayment opportunities. In November 2010 and again in July 2011, Precision designated its U.S. dollar denominated long-term debt as a hedge of its investment in its United States operations. To be accounted for as a hedge, the foreign currency denominated long-term debt must be designated and documented as such and must be effective at inception and on an ongoing basis. As a result, the portion of gains or losses on the hedged item that is determined to be effective is recognized in other comprehensive income, net of tax and is limited to the translation gain or loss on the net investment, while the ineffective portion, if any, is recorded in earnings.

On July 29, 2011, Precision closed a private placement of US$400 million aggregate principal amount of 6.5% senior unsecured notes due 2021 (the "6.5% Senior Notes due 2021"). Net proceeds from the 6.5% Senior Notes due 2021 offering are being used for capital expenditures and general corporate purposes.

On June 19, 2011, Precision entered into an amendment to its Secured Facility which: (i) reduced the margins and rates applicable to interest rates and fees payable under the Secured Facility; (ii) extended the maturity date of the Secured Facility to November 17, 2015 from November 17, 2013; (iii) increased the amount of unsecured indebtedness permitted to be incurred under the Secured Facility; (iv) increased the consolidated senior debt to EBITDA ratio from 2.5:1 to 3:1; and (v) increased the consolidated total debt to EBITDA ratio from 3.5:1 to 4:1.

On March 23, 2011, Precision closed a private placement of $200 million aggregate principal amount of 6.5% senior unsecured notes due 2019 (the "6.5% Senior Notes due 2019"). The net proceeds and cash on hand were in effect used to repay the $175 million 10% senior unsecured notes. The total repayment of approximately $204 million included the $175 million in principal, accrued interest and a make-whole premium. The make-whole premium of $27 million was a charge to earnings in the first quarter of 2011.

On November 17, 2010, Precision closed a private placement of US$650 million aggregate principal amount of 6.625% senior unsecured notes due 2020 (the "6.625% Senior Notes due 2020"). Net proceeds from the 6.625% Senior Notes due 2020 offering were used to repay in full the outstanding indebtedness under the Corporation's then existing term loan A and term loan B credit facilities. In conjunction with the closing of the 6.625% Senior Notes due 2020 offering, Precision terminated its then existing secured credit facilities and entered into a US$550 million secured revolving credit facility (the "Secured Facility").

As at December 31, 2011, Precision was in compliance with the covenants under the Secured Facility and expects to remain in compliance with financial covenants under this facility and have complete access to credit lines during 2012. The blended cash interest cost of Precision's debt at December 31, 2011 was approximately 6.6%, (2010 – 7.3%).

Secured Facility

The Secured Facility contains a number of covenants that, subject to certain exceptions, will, among other things, restrict Precision's ability to and its Material Subsidiaries' ability to: (i) incur or assume additional indebtedness; (ii) dispose of assets; (iii) make or pay dividends, share redemptions or other distributions; (iv) change their primary business; (v) incur or assume liens on assets; (vi) engage in transactions with affiliates; (vii) enter into mergers, consolidations or amalgamations; and (viii) enter into speculative swap agreements.

The following is a summary of the material terms of the Secured Facility:

- the Secured Facility provides senior secured financing of up to US$550 million, with a provision for an increase in the facility of up to an additional US$100 million. The Secured Facility has a term of four years maturing on November 17, 2015, with an option on Precision's part to request that the lenders extend, at their discretion, the facility to a new maturity date not to exceed four years from the date of the extension request;
- a maximum consolidated senior debt to EBITDA ratio of 3.0 to 1.0 for the most recent four consecutive fiscal quarters;
- a maximum consolidated total debt to EBITDA ratio of 4.0 to 1.0 for the most recent four consecutive fiscal quarters;
- a minimum interest coverage ratio of 2.75 to 1.0 for the most recent four consecutive fiscal quarters; and
- the Secured Facility is secured by liens on substantially all of the present and future assets of Precision and the present and future assets of Precision's material U.S. and Canadian subsidiaries (including subsidiaries that Precision designates as "material"). The Secured Facility contains representations and warranties, covenants and events of default customary for transactions of this nature, including financial ratio covenants tested on a quarterly basis.

The Secured Facility also contains customary affirmative covenants and events of default.

US$650 million 6.625% Senior Unsecured Notes

The 6.625% Senior Notes due 2020 issued on November 17, 2010 have a 10 year term and mature on November 15, 2020 and bear interest at 6.625%, payable in cash semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2011. Interest on the 6.625% Senior Notes due 2020 accrues from and including the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance.

Precision may redeem, prior to November 15, 2013, up to 35% of the 6.625% Senior Notes due 2020 with the net proceeds of certain equity offerings at a redemption price equal to 106.625% of their principal amount, plus accrued interest. Prior to December 15, 2016, Precision may redeem the notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the December 15, 2016 redemption price plus required interest payments through December 15, 2016 (calculated using the United States Treasury rate plus 50 basis points) over the principal amount of the note. As well, Precision may redeem the notes in whole or in part at any time on or after November 15, 2015 and before November 15, 2018, at redemption prices ranging between 103.313% and 101.104% of their principal amount plus accrued interest. Anytime on or after November 15, 2018 the notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

The indenture governing the notes will limit Precision's ability and the ability of certain of our subsidiaries to, among other things: (i) incur additional indebtedness and issue preferred stock; (ii) create liens; (iii) make restricted payments; (iv) create or permit to exist restrictions on our ability or the ability of certain of our subsidiaries to make certain payments and distributions; (v) engage in amalgamations, mergers or consolidations; (vi) make certain dispositions and transfers of assets; and (vii) engage in transactions with affiliates.

The 6.625% Senior Notes due 2020 are general unsecured obligations of Precision and will rank senior in right of payment to all future obligations of Precision that are, by their terms, expressly subordinated in right of payment to the 6.625% Senior Notes due 2020 and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

The 6.625% Senior Notes due 2020 also contain customary affirmative covenants and events of default.

$200 million 6.50% Senior Unsecured Notes

On March 23, 2011, the Corporation completed a $200 million private placement offering to Canadian investors of 6.5% Senior Notes due 2019. The 6.50% Senior Notes were issued and are governed under the terms of the note indenture which governs the notes. The 6.50% Senior Notes are denominated in Canadian dollars and all payments on the 6.50% Senior Notes due 2019 will be made in Canadian dollars.

The net proceeds of the 6.5% Senior Notes due 2019 and available cash were used to, in effect, repay the 10% senior unsecured notes. The 6.5% Senior Notes due 2019 will mature on March 15, 2019, and bear interest at 6.50%, payable in cash semi-annually in arrears on March 15 and September 15 of each year, commencing on September 15, 2011, to the note holders of record at the close of business on March 1 or September 1, as the case may be, immediately preceding the related interest payment date. Interest on the 6.5% Senior Notes due 2019 will accrue from and including the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance.

Precision may redeem, prior to March 15, 2014, up to 35% of the 6.5% Senior Notes due 2019 with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of their principal amount, plus accrued interest. Prior to March 15, 2015, Precision may redeem the notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the March 15, 2015 redemption price plus required interest payments through March 15, 2015 (calculated using the Government of Canada rate plus 100 basis points) over the principal amount of the note. As well, Precision may redeem the notes in whole or in part at any time on or after March 15, 2015, and before March 15, 2017, at redemption prices ranging between 103.250% and 101.625% of their principal amount plus accrued interest. Anytime on or after March 15, 2017 the notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

The indenture governing the notes will limit Precision's ability and the ability of certain of our subsidiaries to, among other things: (i) incur additional indebtedness and issue preferred stock; (ii) create liens; (iii) make restricted payments; (iv) create or permit to exist restrictions on our ability or the ability of certain of our subsidiaries to make certain payments and distributions; (v) engage in amalgamations, mergers or consolidations; (vi) make certain dispositions and transfers of assets; and (vii) engage in transactions with affiliates.

The 6.5% Senior Notes due 2019 are general unsecured obligations of Precision and will rank senior in right of payment to all future obligations of Precision that are, by their terms, expressly subordinated in right of payment to the 6.5% Senior Notes due 2019 and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

The 6.5% Senior Notes due 2019 also contain customary affirmative covenants and events of default.

US$400 million 6.5% Senior Unsecured Notes

The 6.5% Senior Notes due 2021 issued on July 29, 2011 have a 10.5 year term and mature on December 15, 2021 and bear interest at 6.5%, payable in cash semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2011. Interest on the 6.5% Senior Notes due 2021 accrues from and including the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance.

Precision may redeem, prior to December 15, 2014, up to 35% of the 6.5% Senior Notes due 2021 with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of their principal amount, plus accrued interest. Prior to December 15, 2016, Precision may redeem the notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the December 15, 2016 redemption price plus required interest payments through December 15, 2016 (calculated using the United States Treasury rate plus 50 basis points) over the principal amount of the note. As well, Precision may redeem the notes in whole or in part at any time on or after December 15, 2016 and before December 15, 2018, at redemption prices ranging between 103.250% and 101.083% of their principal amount plus accrued interest. Anytime on or after December 15, 2019 the notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

The indenture governing the notes will limit Precision's ability and the ability of certain of our subsidiaries to, among other things: (i) incur additional indebtedness and issue preferred stock; (ii) create liens; (iii) make restricted payments; (iv) create or permit to exist restrictions on our ability or the ability of certain of our subsidiaries to make certain payments and distributions; (v) engage in amalgamations, mergers or consolidations; (vi) make certain dispositions and transfers of assets; and (vii) engage in transactions with affiliates.

The 6.5% Senior Notes due 2021 are general unsecured obligations of Precision and will rank senior in right of payment to all future obligations of Precision that are, by their terms, expressly subordinated in right of payment to the 6.5% Senior Notes due 2021 and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

The 6.5% Senior Notes due 2021 also contain customary affirmative covenants and events of default.

General

At December 31, 2011, approximately $1,268 million (2010 – $821 million) was outstanding under secured credit facilities and unsecured senior notes, collectively. The Secured Facility was undrawn at December 31, 2011 and is available in the future to fund capital expenditures or for other corporate purposes.

During 2011 Precision generated cash from continuing operations of $533 million. In addition, net borrowings were increased by $407 million. The cash generated was used for business acquisitions of $93 million and to purchase property, plant and equipment net of disposal proceeds and related non-cash working capital of $622 million and pay additional finance charges of $42 million offset by $2 million in proceeds from the exercise of stock options and $26 million unrealized foreign exchange gain on holding foreign cash leaving a net change in the cash held balance as at December 31, 2011 of $211 million.

Precision exited 2011 with a long-term debt to long-term debt plus equity ratio of 0.37 compared to 0.29 in 2010 and a ratio of long-term debt to cash provided by operations of 2.33 compared to 2.63 in 2010.

In addition to the Secured Facility and the senior unsecured notes, Precision had available $25 million (2010 – $25 million) and US$15 million (2010 – US$15 million) under secured operating facilities, of which no amounts had been drawn. Availability of the $25 million facility was reduced by outstanding letters of credit in the amount of $0.5 million. The facilities are primarily secured by charges on substantially all present and future property of Precision and its material subsidiaries. Advances under the $25 million facility are available at the banks' prime lending rate, U.S. base rate, U.S. Libor plus applicable margin or Banker's Acceptance plus applicable margin, or in combination and under the US$15 million facility at the bank's prime lending rate.

Precision's contractual obligations as at December 31, 2011 are outlined in the following table:

	Payments Due by Period				
(Stated in thousands of Canadian dollars)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Long-term	$ 1,267,850	$ –	$ –	$ –	$ 1,267,850
Interest on long-term debt	745,703	83,237	166,473	166,473	329,520
Rig construction	195,008	195,008	–	–	–
Operating leases	80,956	12,873	22,989	16,566	28,528
Contractual incentive plans[1]	51,421	27,238	24,183	–	–
Contingent purchase consideration	18,146	18,146	–	–	–
Total contractual obligations	$ 2,359,084	$ 336,502	$ 213,645	$ 183,039	$ 1,625,898

(1) Includes amounts not yet accrued at December 31, 2011 but potentially payable at the end of the contract term. Share based compensation amounts disclosed at year-end share price. Precision has long-term incentive plans ("LTIP") which compensate officers and key employees through cash payments at the end of a stated term.

Outstanding share data

	March 15, 2012	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Shares	276,152,243	276,081,797	275,686,676	275,516,778
Exchangeable LP Units	–	–	–	118,820
Total Outstanding shares	276,152,243	276,081,797	275,686,676	275,635,598
Deferred shares outstanding	391,157	417,496	393,717	290,732
Warrants outstanding	15,000,000	15,000,000	15,000,000	15,000,000
Share options outstanding	6,999,992	5,154,123	3,723,123	1,787,700

(Stated in thousands of Canadian dollars except per share amounts)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Shares outstanding	**276,081,797**	275,686,676	275,635,598
Year-end share price[1]	**$ 10.50**	$ 9.60	$ 7.65
Shares at market	**$ 2,898,859**	$ 2,646,592	$ 2,108,612
Long-term debt	**1,239,616**	804,494	748,725
Less working capital	**(610,429)**	(458,003)	(314,262)
Enterprise value	$ 3,528,046	$ 2,993,083	$ 2,543,075

(1) As per the Toronto Stock Exchange

Business Segments

To align with the management of the operating divisions, Precision now considers the camp and catering division to be within the Completion and Production Services segment. Precision views its corporate segment as a support function that provides assistance to more than one segment. Beginning with 2011 Precision has included United States based corporate costs, previously included in Contract Drilling Services, in the Corporate and Other segment. Prior period numbers have been reclassified to reflect these changes.

Precision's operations are carried out in two segments: Contract Drilling Services and Completion and Production Services. The Contract Drilling Services segment includes land drilling services, directional drilling 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 rigs for well completion and workover services, snubbing services, camp and catering services, water treatment services and the rental of oilfield surface equipment, tubulars, well control equipment and wellsite accommodations.

The Contract Drilling Services segment comprises a number of vertically integrated subsidiaries operating in the United States, Canada and internationally. These subsidiaries are engaged primarily in providing onshore well drilling services to exploration and production companies in the oil and natural gas industry.

At December 31, 2011, the Contract Drilling Services segment comprised:

(a) 188 land drilling rigs in Canada;

(b) 143 land drilling rigs in the United States;

(c) one land drilling rig in Saudi Arabia and two more in preparation for transit to Saudi Arabia;

(d) two land drilling rigs in Mexico;

(e) one land drilling rig in South America;

(f) capacity to run concurrently 65 directional drilling jobs

(g) engineering, manufacturing and repair services primarily for Precision's operations; and

(h) centralized procurement, inventory and distribution of consumable supplies primarily for Precision's Canadian, United States and Mexico operations.

The Completion and Production Services segment comprises a number of subsidiaries operating primarily in Canada, providing completion, workover and ancillary services to oil and natural gas exploration and production companies. At December 31, 2011, Precision's Completion and Production Services segment comprised:

(a) 189 well completion and workover service rigs;

(b) 18 snubbing units;

(c) approximately 11,330 oilfield rental items including well control equipment, surface equipment, specialty tubulars and wellsite accommodation units;

(d) 63 drilling and base camps; and

(e) 93 water treatment units.

Business lines are organized in two segments to align with the dynamics of customer markets and processes. This encompasses the initial drilling of oil and natural gas wells, Contract Drilling Services, and the subsequent completion and workover of wells to optimize production volumes, Completion and Production Services. These segments have been integrated with internal support infrastructure to optimize customer service delivery and lower costs.

An integral element in Precision's North American operations is vertical integration through internal supply procurement and distribution that supports rig operations and all other Precision businesses. This support serves to efficiently handle a high volume of transactions and manage supplier relationships to enhance product quality selection, standardization and volume purchasing. Information system automation has streamlined the procurement, supply distribution and decision making process.

Precision also has an equipment manufacturing, repair and certification division that supports rig operations. This division provides rig manufacturing capabilities and engineering to facilitate new rig construction and the upkeep of operating assets. Specialized machining, skilled tradesmen and management have allowed Precision to optimize its capital allocation through quality workmanship, project planning, retention of intellectual property and cost savings.

Precision's vertical integration is further complemented by rig manufacturing engineering in the drilling division. Rigs built by Precision are designed for greater safety and operating efficiency to deliver total well cost savings to customers. High performance drilling rigs combine high mobility, automated pipe handling, advanced control systems, minimal environmental impact, and highly trained crews.

CONTRACT DRILLING SERVICES

Precision began operating in western Canada as a land drilling contractor in the 1950s. A combination of new equipment purchases and acquisitions over the last 22 years has expanded fleet capacity and added complementary businesses. For the past decade, Precision has been Canada's largest oilfield services provider and with the acquisition of Grey Wolf, Inc. in 2008 is the second largest North American land drilling contractor.

Precision currently comprises approximately 24% of the active Canadian land drilling market, about five percent of the active United States market and an emerging international presence.

Precision's rigs are marketed in three classes: Tier 1, Tier 2 and Tier 3. Each tier indicates which rigs are suited to meet more complex drilling requirements including pad development, directional or horizontal drilling, slant drilling and drilling in environmentally sensitive areas.

Tier 1 drilling rigs are high performance, of newer design and manufacture, capable of drilling directionally and horizontally, are highly mobile requiring fewer trucking loads and often include the following capabilities: highly mechanized tubular handling equipment; integrated top drive or top drive adaptability; advanced mechanical, silicone controlled rectifier ("SCR"), or AC power distribution and controls; electronic control of the majority of operating parameters; specialized drilling tubular; and high-capacity mud pumps. Tier 1 drilling rigs are better suited to meet the challenges of complex customer resource exploitation requirements in the North American shale and unconventional plays.

Tier 2 drilling rigs are high performance rigs where new equipment and modifications have been applied to improve performance and enhance directional and horizontal drilling capability. Improvements include: some mechanization of tubular handling equipment; top drive adaptability; mechanical or SCR type power systems; increased hook load and or racking capabilities; upgraded power generating, control systems and other major components; and high-capacity mud pumps. Tier 2 rigs are usually less mobile than Tier 1 rigs.

Tier 3 includes rigs which still provide an acceptable level of performance for certain drilling requirements but would require major equipment upgrades to meet the criteria of a Tier 2 or Tier 1 rig. Tier 3 rigs are typically conventional mechanical rigs with no automation and lower pump capacity. Tier 3 rigs are usually not capable of efficiently drilling directional or horizontal wells.

Rig tiers are not an indication that a rig from a different tier does not have the capabilities to provide an acceptable level of service but more to distinguish between rigs where improvements have been effectively applied to provide an increased level of performance through the application of equipment advancements and associated technologies.

Following is a chart of Precision drilling rigs by tier classification as at December 31, 2011:

Horsepower	< 1000	1000-1500	>1500	Total
Tier 1	72	69	3	144
Tier 2	68	33	25	126
Tier 3	50	13	4	67
Total	190	115	32	337

Geographic location	Canada	U.S.	International	Total
Tier 1	77	67	–	144
Tier 2	66	54	6[(1)]	126
Tier 3	45	22	–	67
Total	188	143	6	337

(1) includes two rigs in the process of being prepared for transit from the United States to Saudi Arabia.

COMPLETION AND PRODUCTION SERVICES

Precision's Completion and Production Services provides operations at the well location to complete wells that have been drilled and to maintain oil and gas wells that have been placed into production. The underlying well program parameters determine the type of service rig and ancillary services best suited to workover a particular well. Service rigs are versatile and capable of working on both oil and natural gas wells. Design and technological improvements have made equipment offerings more competitive through efficiency gains and wide market appeal to a broad range of well requirements.

Precision's service rigs and snubbing units each comprise about 18% of their respective Canadian markets. In addition to completing and servicing wells with rigs, the segment offers snubbing to service natural gas wells while pressurized, a broad mix of rental equipment and water treatment for remote accommodations.

The configuration of Precision Well Servicing's Canadian fleet as at December 31 for the past four years is illustrated in the following table:

Type of Service Rig	Horsepower	2011	2010	2009	2008
Singles:					
Mobile	150-400	**–**	–	–	2
Freestanding mobile	150-400	**90**	94	94	97
Doubles:					
Mobile	250-550	**19**	25	28	42
Freestanding mobile	200-550	**40**	35	30	23
Skid	300-860	**22**	28	30	48
Slants:					
Freestanding	250-400	**18**	18	18	17
Total Service Rigs		**189**	200	200	229
Snubbing Units		**18**	20	20	29
Total Service Rigs and Snubbing Units		**207**	220	220	258

A freestanding service rig lowers costs for customers through set up efficiency and minimal ground disturbance which reduces the risk of striking underground utilities.

Consolidated Financial Results

CONSOLIDATED OVERVIEW

Summary of Consolidated Statements of Earnings

(Stated in thousands of Canadian dollars) . Years ended December 31	2011	2010	2009[1]
Revenue:			
Contract Drilling Services	**$1,632,037**	$1,186,007	$1,015,041
Completion and Production Services	**330,225**	255,827	201,877
Inter-segment elimination	**(11,235)**	(12,181)	(19,472)
	1,951,027	1,429,653	1,197,446
EBITDA: [2]			
Contract Drilling Services	**665,389**	434,167	411,017
Completion and Production Services	**104,252**	66,443	51,918
Corporate and Other	**(74,577)**	(65,702)	(55,934)
	695,064	434,908	407,001
Depreciation and amortization	**251,483**	210,103	138,000
Loss on asset decommissioning	**114,893**	–	82,173
Operating earnings	**328,688**	224,805	
Foreign exchange	**(23,674)**	(12,712)	(122,846)
Finance charges	**115,332**	211,327	147,401
Other	**(3,754)**	–	–
Earnings before income taxes	**240,784**	26,190	162,273
Income taxes	**47,307**	(17,345)	570
Net earnings	**$ 193,477**	$ 43,535	$ 161,703

(1) Financial information prepared using Previous CGAAP.
(2) Additional IFRS measure. See page 43.

2011 Compared to 2010

For the year ended December 31, 2011, Precision reported net earnings of $193 million or $0.67 per diluted share compared to net earnings of $44 million or $0.15 per diluted share for 2010. Revenue for the year was $1,951 million compared to $1,430 million for 2010. Net earnings and net earnings per diluted share for the year include the impact of previously disclosed charges associated with asset decommissioning and Canadian income tax settlements. EBITDA totalled $695 million for 2011 compared to $435 million for 2010, an increase of 60%. Improved pricing and margins along with higher activity levels in both operating segments have led to the year-over-year improvement. Activity for Precision in 2011, as measured by drilling rig utilization days, increased 22% in Canada and 17% in the United States compared to 2010.

The industry and Precision experienced increased utilization during 2011 as higher oil and natural gas liquids prices were experienced for much of 2011 when compared to 2010. For the year, WTI crude oil averaged US$95.02 per barrel versus US$79.38 in 2010 and Henry Hub natural gas averaged US$3.98 per MMBtu versus US$4.37 in 2010. On Canadian markets the average price for AECO natural gas was $3.62 per MMBtu in 2011 compared to $4.00 in 2010.

Currency exchange rates can impact commodity prices and have always had an impact on industry fundamentals in the Canadian market. Precision reports its financial results in Canadian dollars and currency translation can result in significant foreign exchange gains or losses on operations outside Canada and United States dollar denominated monetary positions. At December 31, 2011 Precision's Canadian operation reported a U.S. dollar net monetary asset position of $281 million which excludes US$1.2 billion of long-term debt that has been designated as a hedge of the Corporation's net investment in certain foreign operations. During 2011 Precision reported a $24 million foreign exchange gain as a result of the Canadian dollar depreciating 2% against the U.S. dollar compared with a 5% appreciation during 2010.

During 2011 there were about 11,832 wells drilled in western Canada, a 1% decrease from the 11,936 drilled in 2010, while total industry drilling operating days increased by 21% to 144,646. The average industry drilling operating days per well in 2011 was 12.2 compared to 10.0 in 2010. The increase in total utilization days and days per well while totals wells drilled are down as a result of the increase in horizontal drilling which are typically longer wells both in terms of distance drilled and time to drill. In the United States a total of approximately 45,500 industry wells were drilled in 2011 representing a 19% increase from the approximately 38,300 wells drilled in 2010.

2010 Compared to 2009

For the year ended December 31, 2010, Precision reported net earnings of $44 million or $0.15 per diluted share compared to net earnings of $162 million or $0.63 per diluted share for the same period of 2009. Revenue for the year was $1,430 million compared to $1,197 million for 2009. EBITDA totalled $435 million for 2010 compared to $407 million for 2009. Higher activity levels in 2010 were offset by lower average pricing as more Tier 2 and Tier 3 rigs went to work. Results for the year ended December 31, 2010 include a loss on settlement of debt totalling $117 million related to the expensing of deferred debt issue costs mainly arising from the repayment of the term loan A and term loan B credit facilities that occurred in late 2010 compared to a loss of $18 million in 2009 arising from the settlement of the unsecured bridge facility and the voluntary prepayments on the term loan A and term loan B credit facilities. In addition, a foreign exchange gain of $13 million was included in the 2010 results as compared to a foreign exchange gain of $123 million for the same period of 2009 which also included an $82 million charge for asset decommissioning compared to no charge for the current year.

The industry and Precision experienced increased utilization during 2010 as higher oil and natural gas liquids prices were experienced for much of 2010 when compared to 2009. For the 2010, WTI crude oil averaged US$79.38 per barrel versus US$61.83 in 2009 and Henry Hub natural gas averaged US$4.37 per MMBtu versus US$3.92 in 2009. On Canadian markets the average price for AECO natural gas was $4.00 per MMBtu in 2010 compared to $3.96 in 2009.

During 2010 there were about 11,936 wells drilled in western Canada on a rig release basis, a 45% increase from the 8,250 drilled in 2009, while total industry drilling operating days increased by 53% to about 119,300. The average industry drilling operating days per well in 2010 was 10.0 compared to 9.5 in 2009. In the United States a total of approximately 38,300 industry wells were drilled in 2010 representing a 16% increase from the approximately 33,100 wells drilled in 2009.

Quarterly Financial Summary

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

	2011			
Quarters ended	**March 31**	**June 30**	**September 30**	**December 31**
Revenue	**$525,350**	**$345,325**	**$ 492,944**	**$ 587,408**
EBITDA[1]	**186,411**	**92,566**	**186,248**	**229,839**
Net earnings:	**65,560**	**16,403**	**83,468**	**28,046**
Per basic share	**0.24**	**0.06**	**0.30**	**0.10**
Per diluted share	**0.23**	**0.06**	**0.29**	**0.10**
Funds provided by operations [1]	**192,337**	**70,766**	**73,182**	**256,103**
Cash provided by operations	**117,322**	**176,312**	**20,281**	**218,857**

	2010			
Quarters ended	**March 31**	**June 30**	**September 30**	**December 31**
Revenue	$373,136	$261,828	$ 359,152	$ 435,537
EBITDA[1]	117,658	60,125	112,607	144,518
Net earnings (loss):	56,917	(69,418)	56,286	(250)
Per basic share	0.21	(0.25)	0.20	–
Per diluted share	0.20	(0.25)	0.20	–
Funds provided by operations [1]	102,759	40,692	126,811	133,903
Cash provided by operations	20,624	143,001	67,575	75,064

(1) Additional IFRS measure. See page 43.

The Canadian drilling industry is subject to seasonality with activity peaking during the winter months in the fourth and first quarters. As temperatures rise in the spring, the ground thaws and becomes unstable. Government road bans severely restrict activity in the second quarter in Canada before equipment is moved for summer drilling programs in the third quarter. These seasonal trends typically lead to quarterly fluctuations in operating results and working capital requirements. In contrast the activity in the United States is not subject to the same level of seasonal interruptions and therefore operating results and working capital fluctuations are more muted.

Fourth Quarter 2011

For the fourth quarter ended December 31, 2011 Precision reported net earnings of $28 million or $0.10 per diluted share compared to a net loss of $0.3 million for the fourth quarter of 2010. Net earnings and net earnings per diluted share for the quarter included the impact of a charge associated with asset decommissioning, which decreased net earnings and net earnings per diluted share by $76 million and $0.26, respectively.

Revenue for the fourth quarter of 2011 was $587 million, $152 million higher than the comparable quarter in 2010. The increase was due to a year-over-year increase in rates and utilization days both in Canada and the United States. Revenue in Precision's Contract Drilling Services segment increased by 38% while revenue increased 16% in the Completion and Production Services segment in the fourth quarter of 2011 compared to the prior year quarter.

Drilling rig utilization days (spud to rig release plus move days) in Canada during the fourth quarter of 2011 were 10,724, an increase of 10% when compared to 9,730 days achieved in 2010. Drilling rig utilization days for Precision in the United States was 9,834, an increase of 10% when compared to 8,915 days achieved in 2010. The increase is attributable to both an increase in activity and new asset additions over the prior year period. During the quarter, Precision averaged a total of 226 rigs working with an average of 117 drilling rigs working in Canada, 107 in the United States and two in Mexico. This compares with a total average of 222 rigs working in the third quarter of 2011 and 204 rigs in the fourth quarter a year ago. Service rig activity increased 3% from the prior year period, with the service rig fleet generating 87,477 operating hours in the fourth quarter of 2011 compared with 84,758 hours in 2010. Precision now includes snubbing services with service rigs. Comparative amounts have been restated to reflect this change.

Precision reported EBITDA for the fourth quarter of $230 million compared with $145 million for the fourth quarter of 2010. EBITDA margin (EBITDA as a percentage of revenue) was 39% for the fourth quarter of 2011 compared to 33% for the same period in 2010. The increase in EBITDA margin was primarily attributable to higher utilizations and higher average dayrates in both markets in the fourth quarter of 2011 versus the prior year period. Precision's term contract position with customers, a highly variable operating cost structure and economies achieved through vertical integration of the supply chain continue to support EBITDA margins.

Contract Drilling Services segment revenue for the fourth quarter of 2011 increased by 38% to $494 million and EBITDA increased by 51% to $217 million when compared to the same period in 2010. The increase in revenue and EBITDA was due to the higher drilling rig activity and higher average rates per day for both Canada and the United States.

For the quarter, EBITDA margins in the Contract Drilling Services segment were 44% of revenue compared to 40% in 2010. In Canada during the quarter Precision averaged 55 rigs working under term contracts representing 38% of its utilization days compared to 37 term contracted rigs in 2010 representing 30% of its days. While in the United States Precision averaged 85 drilling rigs working under term contracts representing 79% of its utilization days compared to 62 term contracted rigs in 2010 representing 64% of its days. Average rig dayrates in Canada for the quarter were up 16% over the prior quarter and up 18% in the United States. Sequentially, the fourth quarter EBITDA margins were two percentage points higher than the third quarter of 2011 due to increased average rig dayrates.

Operating costs in the Contract Drilling Services segment for the fourth quarter of 2011 were 54% of revenue compared with 58% in the same quarter of 2011. Average operating costs per day in Canada in the fourth quarter of 2011 was $9,326 compared with $8,687 in the same quarter of 2010. The increase was primarily due to labour rate increases that became effective in October 2011. Average operating costs per day in the United States in the fourth quarter of 2011 was US$13,552 compared with US$12,681 in the same quarter of 2010. The increase was primarily due to labour rate increases that became effective in December 2010 and October 2011 partially offset by 2011 cost control initiatives.

In the Contract Drilling Services segment, depreciation for the quarter was $13 million higher than 2010 due to the increase in activity in both the United States and Canada and asset mix associated with higher performance Tier 1 and Tier 2 rig utilization. The segment applies the unit of production method in calculating rig depreciation expense. During the fourth quarter of 2011 the Contract Drilling Services segment recognized a loss of $113 million related to the decommissioning of 36 drilling rigs, 19 in Canada and 17 in the United States.

In the Completion and Production Services segment, revenue for the fourth quarter of 2011 increased by 16% from the comparable quarter of 2010 to $95 million while EBITDA increased by 33% to $34 million. The increase in revenue and EBITDA is attributed to the increase in industry activity as customers increased spending in response to higher oil and natural gas liquids commodity prices.

Service rig and snubbing activity increased 3% from the prior year period, with the fleet generating 87,477 operating hours in the fourth quarter of 2011 compared with 84,758 hours in 2010 for utilization of 43% and 42%, respectively. The increase was the result of higher service rig demand due to increased service rig activity due to the completion and production work on oil wells as approximately 96% of the fourth quarter service rig activity was oil related compared to 79% in the fourth quarter of 2010. New well completions accounted for 17% of service rig operating hours in the fourth quarter compared to 30% in the same quarter in 2010. The decrease is due the greater proportion of horizontal wells being drilled in 2011 compared to 2010 and the need to complete these wells with coiled tubing rigs.

Within Precision's Completion and Production Services segment, average hourly operating costs for service rigs increased to $516 in the fourth quarter of 2011 as compared to $476 in the fourth quarter of 2010 primarily due to a labour rate increase and higher maintenance costs to prepare for increased activity.

In the Completion and Production Services segment, depreciation in the fourth quarter of 2011 was 8% higher than the prior year period due to higher activity levels. In the fourth quarter of 2011 the Completion and Production Services segment recorded a $2 million loss related to the decommissioning of 11 well servicing rigs and two snubbing units. The segment applies the unit of production method in calculating well servicing rig depreciation expense.

For Precision in total general and administrative expenses were $36 million, an increase of $1 million from the fourth quarter of 2010 as a result of increased activity.

Net financing charges of $22 million for the fourth quarter of 2011 were $86 million lower than the prior year. The decrease was due to $91 million of non-cash charges incurred during the fourth quarter of 2010 associated with the refinancing of Precision's debt partially offset by increased interest charges on increased long-term debt balance for 2011.

In the fourth quarter of 2011 capital expenditures were $328 million, an increase of $217 million over the same period in 2010. Capital spending for the fourth quarter of 2011 included $221 million for expansion capital and $107 million for the maintenance and upgrade of existing assets.

YEAR ENDED DECEMBER 31, 2011

Contract Drilling Financial Results

(Stated in thousands of Canadian dollars, except where noted)	**2011**	**% of Revenue**	**2010**	**% of Revenue**	**2009[1]**	**% of Revenue**
Revenue	**$1,632,037**		$1,186,007		$1,015,041	
Expenses:						
Operating	**931,062**	**57.0**	720,347	60.7	572,890	56.4
General and administrative	**35,586**	**2.2**	31,493	2.7	31,134	3.1
EBITDA[2]	**665,389**	**40.8**	434,167	36.6	411,017	40.5
Depreciation and amortization	**219,194**	**13.4**	177,516	15.0	110,696	10.9
Loss on asset decommissioning	**133,366**	**7.0**	–	–	67,794	6.7
Operating earnings [3]	**$ 332,829**	**20.4**	$ 256,651	21.6	$ 232,527	22.9

	2011	**% Increase (Decrease)**	**2010**	**% Increase (Decrease)**	**2009**	**% Increase (Decrease)**
Number of drilling rigs (end of year)	**337**	**(5.1)**	355	0.9	352	(5.9)
Drilling utilization days (operating and moving):						
Canada	**37,970**	**21.8**	31,176	46.9	21,229	(38.4)
United States	**37,887**	**16.8**	32,450	43.1	22,672	183.2
International	**702**	**12.9**	622	(12.4)	710	346.5
Drilling revenue per utilization day:						
Canada	**18,442**	**14.3**	16,139	(9.5)	17,824	8.6
United States	**21,744**	**14.7**	18,965	(17.4)	22,951	6.2
Drilling statistics: [3]						
Number of wells drilled	**3,566**	**11.6**	3,196	45.4	2,198	(45.9)
Average days per well	**9.5**	**8.0**	8.8	2.3	8.6	13.2
Number of metres drilled (000s)	**5,717**	**11.7**	5,119	54.4	3,316	(39.0)
Average metres per well	**1,603**	**0.0**	1,602	6.2	1,509	12.6

(1) Financial information prepared using Previous CGAAP.
(2) Additional IFRS measure. See page 43.
(3) Canadian operations only.

2011 Compared to 2010

The Contract Drilling Services segment generated revenue of $1,632 million in 2011, 38% more than the $1,186 million in 2010. The increase in revenue was the result of an increase in drilling activity and higher average rates in both Canada and the United States.

Operating earnings of $333 million increased by $76 million or 30% from $257 million in 2010 and were 20% of revenue in 2011 compared to 22% in 2010. Included in 2011 is the decommissioning of 36 drilling rigs during the fourth quarter resulting in a non-cash charge to earnings of $113 million. Operating expenses were 57% of revenue in 2011 compared to 61% in 2010 primarily as a result of increases in revenue per day. Operating expenses on a per day basis were 7% higher in Canada and 5% higher in the US primarily due to crew wage increases. General and administrative expense was higher in the year due to the increase in activity.

Capital expenditures for the Contract Drilling Services segment in 2011 were $637 million and included $405 million to expand the underlying asset base and $232 million to upgrade existing equipment. The majority of the expansion capital was associated with Precision's 2011 rig build program for 42 new build rigs of which 14 were completed and placed into service by December 31, 2011.

Canadian Drilling division revenue increased $197 million or 39% to $700 million from $503 million in 2010. In 2011, 11,832 wells were drilled in Canada, 1% lower than 2010 while industry operating days in Canada increased to 144,646. With higher oil and natural gas liquids pricing in 2011 compared with 2010 more oil wells were drilled in 2011 offset by fewer natural gas directed wells. With the increased proportion of unconventional wells being drilled relative to the prior year, the average industry drilling operating days per well increased from 10.0 in 2010 to 12.2 in 2011. Horizontal drilling continues to expand in popularity in 2011 as operators exploited tight oil and natural gas plays with horizontal well bores and multi-stage fractures. These types of wells generally require high performance assets.

Precision's Canadian 2011 year end net rig count fell by fourteen to 188 due to the decommissioning of 19 rigs and the completion of five new builds. The industry drilling rig fleet has remained consistent with 2010 at about 800 drilling rigs at the end of 2011. Operating day utilization for Precision increased 8 percentage points to 46% while the industry utilization increased 8 percentage points to 49%.

Average drilling rig utilization dayrates for Precision rigs in Canada increased by 16% in 2011 over 2010. The increase in rates was across all rig categories but was predominately due to improved spot market rates.

Canadian Drilling operating earnings increased by 3 percentage points to 36% in 2011 but would have increased by 5 percentage points if not for the charge related to the decommissioning of 19 rigs which accounted for a 2% point decline in 2011. Excluding the effects of the 2011 asset decommissioning, depreciation expense for the year was $18 million higher than 2010 due to the increase in activity of our Tier I and Tier II rigs.

The United States drilling division revenues increased US$206 million or 33% over 2010 to $824 million. Drilling rig activity was 17% higher in 2011 due to increased utilization from higher customer demand due to improvement in global oil prices.

Average drilling rig utilization dayrates in the United States increased 14% in 2011 from 2010. The increase in rates was due to an increase in drilling rigs working under term contracts, pricing leverage from higher overall industry utilization and additional Tier 1 and upgraded rigs entering the fleet when compared to the prior year. In addition, labour rate increase in December 2010 and October 2011 were typically recovered through dayrate increases.

EBITDA generated from United States operating activities of US$311 million increased US$100 million or 47% from US$211 million in 2010 primarily due to the increase in average revenue per day and the increase in utilization. Operating expenses decreased from 66% of revenue in 2010 to 60% in 2011.

Rostel Industries, Columbia Oilfield Supply and Grey Wolf Supply divisions provide valuable support, best measured by the efficiencies and contributions made to Precision through cost savings. Rostel's expertise provided Precision control over rig construction and enhanced cost control. Columbia and Grey Wolf Supply leveraged their volume purchasing advantage and supplier relationships to provide timely and reliable supplies to keep Precision's rigs operating and allows Precision to standardize product use and quality.

2010 Compared to 2009

The Contract Drilling Services segment generated revenue of $1,186 million in 2010, 17% more than the $1,015 million in 2009. The increase in revenue was the result of an increase in drilling activity in both Canada and the United States partially offset by lower average dayrates.

Operating earnings of $257 million increased by $24 million or 10% from $233 million in 2009 and was 22% of revenue in 2010 compared to 23% in 2009. The increase is due to the decommissioning of 38 drilling rigs during the fourth quarter of 2009 resulting in a non-cash charge to earnings of $68 million. Operating expenses were 61% of revenue in 2010 compared to 56% in 2009 primarily as a result of a reduction in revenue per day. Capital expenditures for the Contract Drilling Services segment in 2010 were $159 million and included $69 million to expand the underlying asset base and $90 million to upgrade existing equipment. The majority of the expansion capital was associated with Precision's 2010 rig build program for nine new build Super Series rigs of which four were completed and placed into service by December 31, 2010.

Canadian Drilling division revenues increased $129 million or 34% to $507 million from $378 million in 2009. Higher oil prices and moderately higher natural gas prices throughout 2010 resulted in 11,936 total wells drilled in Canada, 45% higher than in 2009.

Canadian Drilling operating earnings as a percent of revenue increased by 10 percentage points to 32% in 2010 primarily due to the 2009 charge related to the decommissioning of 26 rigs which accounted for a 10 percentage point decline in 2009.

The United States drilling division revenues increased US$95 million or 18% over 2009 to US$618 million. Drilling rig activity was 43% higher in 2010 due to increased utilization from higher customer demand due to improvement in global oil prices partially offset reduced average dayrates.

EBITDA generated from United States operating activities of US$211 million decreased $7 million or 3% from $218 million in 2009. Operating expenses in the United States increased from 58% of revenue in 2009 to 66% in 2010.

Completion and Production Services Financial Results

(Stated in thousands of Canadian dollars, except where noted)	2011	%of Revenue	2010	%of Revenue	2009[1]	%of Revenue
Revenue	**$330,225**		$255,827		$201,877	
Expenses:						
Operating	**211,195**	**64.0**	178,585	69.8	138,825	68.8
General and administrative	**14,778**	**4.5**	10,799	4.2	11,134	5.5
EBITDA[1]	**104,252**	**31.6**	66,443	26.0	51,918	25.7
Depreciation and amortization	**25,598**	**7.8**	24,128	9.4	21,497	10.7
Loss on asset decommissioning	**1,527**	**0.5**	–	n/m	14,379	7.1
Operating earnings[1]	**$ 77,127**	**23.4**	$ 42,315	16.5	$ 16,042	7.9

	2011	% Increase (Decrease)	2010	% Increase (Decrease)	2009	% Increase (Decrease)
Number of service rigs[3] (end of year)	**207**	**(5.9)**	220	–	220	14.7
Service rig operating hours	**315,536**	**7.3**	294,126	33.9	219,649	(39.2)
Revenue per operating hour	**705**	**10.7**	637	(3.8)	662	(8.4)

(1) Financial information prepared using Previous CGAAP.
(2) Additional IFRS measure. See page 43.
(3) Now includes snubbing services. Comparative numbers have been restated to reflect this change.

2011 Compared to 2010

The Completion and Production Services segment revenue increased by $74 million to $330 million primarily due to an increase in industry activity as customers increased spending with the increase in oil and natural gas liquids prices.

Operating earnings increased by $35 million or 82% and were 23% of revenue in 2011 compared to 17% in 2010. The increased operating earnings were the result of higher service rig and rental equipment activity during the year. Operating expenses were 64% of revenue in 2011, a decrease of 6% from 2010, the decrease was due to higher equipment utilization resulting in lower daily or hourly operating costs associated with fixed operating costs. This was offset by higher crew wages effective in the fourth quarter. Depreciation expense for the year increased 6% from the prior year due to higher operating activity. During the year a charge of $2.0 million was incurred for the decommissioning of 11 service rigs and two snubbing units.

Capital spending in 2011 of $77 million was up 542% from $12 million in 2010. The spending included expansion capital to begin construction of new coiled tubing rigs, pressure pumping and snubbing equipment, along with the addition of new rental equipment, drill camps and waste water treatment units to the fleet. Approximately 26% of capital spending spent was allocated as maintenance capital.

The Precision Well Servicing division revenue increased by $35 million or 19% over 2010 to $223 million, as operating activity increased over 2010 and average service rates increased due to the impact of wage increases implemented during 2011 that were passed through to customers.

The industry reported 16,081 well completions in 2011, 18% higher than the 13,624 well completions in 2010. In addition, ongoing maintenance workovers on existing wells to ensure continuous and efficient production resulted in increased activity through 2011. Industry fleet capacity in 2011 was slightly higher with approximately 1,050 rigs compared to about 1,000 rigs at the end of 2010. High industry capacity has kept market pricing competitive. There were also a rising number of wells where rigless or coiled tubing methods were employed.

Revenue in the Precision Rentals division increased to $57 million, which was $22 million or 65% higher than 2010. Activity increased partially due to higher drilling and well servicing activity and demand from unconventional wells and frac-related activity, and partially due to the addition of rental equipment throughout the year. Each of Precision Rentals three major product lines: surface equipment, tubulars equipment, and wellsite accommodations, experienced year-over-year increases in rates as demand for equipment significantly increased.

Revenue in the LRG Camp and Catering division increased to $42 million compared to $28 million in 2010 or 47% higher. Revenue increased as a result of higher drill camp days from increased drilling activity, and larger capacity base camps. LRG operated two base camps during 2011.

During 2011, Precision's United States division of Completion and Production Services began operations which included the rental of oilfield and drill camp equipment in North Dakota and the operation of a snubbing rig in Pennsylvania. Total revenue was US$6 million.

2010 Compared to 2009

The Completion and Production Services segment revenue increased by $54 million to $256 million primarily due to an increase in industry activity as customers increased spending with the increase in oil and natural gas liquids prices.

Operating earnings increased by $26 million or 164% and was 17% of revenue in 2010 compared to 8% in 2009 due to higher service activity during the year and a $14 million charge for the decommission of 30 service rigs and nine snubbing units in 2009. Operating expenses were 70% of revenue in 2010 and 69% in 2009. Costs decreased due to higher equipment utilization resulting in lower daily or hourly operating costs associated with fixed operating costs, offset by higher crew wages effective in the fourth quarter. Depreciation expense for the year increased 12% from the prior year due to higher operating activity and fewer gains on disposal realized.

Capital spending in 2010 of $12 million, up 323% from $3 million in 2009, included capital to complete construction of wastewater treatment units, increase the rental equipment fleet and complete service and snubbing rig upgrades.

The Precision Well Servicing division revenue increased by $42 million or 29% over 2009 to $187 million as operating activity increased over 2009 while average service rates were down due to the impact of wage reductions implemented in late 2009 that were passed to customers.

The industry reported 13,624 well completions in 2010, 46% higher than the 9,348 well completions in 2009. In addition, ongoing maintenance workovers on existing wells to ensure continuous and efficient production has also sustained activity through 2010. Industry fleet capacity in 2010 was slightly lower with approximately 1,000 compared to about 1,050 rigs at the end of 2009. High industry capacity has kept market pricing competitive. There were also a rising number of wells where rigless or coiled tubing methods are employed.

Precision Rentals division revenue increased to $34 million, which was $8 million or 31% higher than 2009 as activity increased due to higher drilling and well servicing activity and demand from unconventional wells. Each of Precision Rental's three major product lines; surface equipment, tubulars equipment, and wellsite accommodations, experienced year-over-year declines in rates which was brought on by excess industry equipment and pricing pressures, but saw improvement during the fourth quarter as demand for equipment significantly increased.

Revenue in the LRG Camp and Catering division increased marginally to $28 million compared to $27 million in 2009 as a result of increased activity for two base camp operations.

The Terra Water Systems division generated revenue of $6 million in 2010 compared to $5 million in 2009, an increase of 26%.

CORPORATE AND OTHER ITEMS

2011 Compared to 2010

Corporate and Other Expenses

Corporate and other expenses were $75 million a $9 million increase from the prior year of $66 million. The increase was the primarily due to performance based incentive plans and higher activity levels in the current year.

Foreign Exchange

The foreign exchange gain for the current year was $24 million compared to a gain of $13 million in the prior year. The current year foreign exchange gain is the result of strengthening of the Canadian dollar relative to the U. S. dollar and the resulting impact on foreign dollar denominated monetary assets, primarily U.S. dollar cash held in Canada. On November 17, 2010, and again on July 26, 2011, Precision's U.S. dollar debt was designated a hedge of U.S. dollar denominated operations.

Financing Charges

Net financing charges of $115 million decreased by $96 million compared to 2010. The decrease is due to a loss on settlement of debt of $116 million in 2010 and higher debt amortization costs in 2010, partially offset by a $27 million make-whole premium paid in 2011 related to the refinancing of the $175 million 10% senior unsecured notes and the interest expense associated with the Canadian income tax settlements.

Income Taxes

The year-over-year increase in income taxes of $65 million was largely a result of improved earnings before income taxes and $11 million in income taxes recorded in 2011 that related to a prior year.

2010 Compared to 2009

Corporate and Other Expenses

Corporate and other expenses for 2010 were $66 million, a $10 million increase from 2009 of $56 million. The increase was primarily due to share based performance incentive plans and higher professional fees in 2010.

Foreign Exchange

The foreign exchange gain for 2010 was $13 million compared to a gain of $123 million in 2009. The 2010 foreign exchange gain was the result of the strengthening of the Canadian dollar relative to the U.S. dollar and the resulting impact on United States dollar denominated debt offset by the translation of foreign dollar denominated monetary assets. In 2009 the foreign exchange gain was much larger as there was a greater strengthening of the Canadian dollar relative to the U.S. dollar. On November 17, 2010 Precision's U.S. dollar debt was designated a hedge of U.S. dollar denominated operations.

Financing Charges

Net financing charges in 2010 of $211 million increased by $64 million compared to 2009. This increase was attributable a loss on settlement of debt of $116 million resulting from the repayments of the term loans offset by lower average debt outstanding during 2010 compared to 2009.

Income Taxes

The 2010 decrease in taxes of $9 million compared to 2009 was largely a result of foreign exchange gains and income taxed at lower rates.

RESULTS BY GEOGRAPHIC SEGMENT

(Stated in thousands of Canadian dollars) **Years ended December 31,**	**2011**	**2010**	**2009[1]**
Revenue:			
Canada	**$1,071,526**	$ 772,332	$ 569,013
United States	**866,776**	634,885	608,109
International	**22,994**	27,239	23,748
Inter-segment elimination	**(10,269)**	(4,803)	(3,424)
	$1,951,027	$1,429,653	$1,197,446
Total Assets:			
Canada	**$2,252,084**	$1,720,785	$1,639,046
United States	**2,027,676**	1,789,441	2,498,909
International	**148,114**	54,314	53,758
	$4,427,874	$3,564,540	$4,191,713

(1) Financial information prepared using Previous CGAAP.

Transition to International Financial Reporting Standards and Critical Accounting Estimates

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Precision was required to report its financial results in accordance with International Financial Reporting Standards ("IFRS") from January 1, 2011, the changeover date set by Accounting Standards Board (AcSB). IFRS compliant comparative financial information for one year was required on the effective date.

Transition to IFRS did not materially impact debt covenants or affect cash flows. Except for changes to management reports, no significant changes to internal controls over financial reporting or disclosure were required.

Precision has completed the analysis of the impact of IFRS on its opening IFRS balance sheet and on financial statements for the year ended December 21, 2010. Assessment of the impact of IFRS on financial statements for the year ended December 31, 2009 is not a requirement under IFRS and as such comparatives for the year ended December 31, 2009 have not been restated. Note 4 to the consolidated financial provides a detailed review of the impact adoption of IFRS had on Precision's 2010 financial statements.

As discussed in Note 5 to the consolidated financial statements a number of IFRS standards have been revised but not yet applied. In addition a number of standards are expected to be revised in the next two to three years by the standard setting body and Precision will continue to monitor the changes and address the impact these changes will have on Precision.

CRITICAL ACCOUNTING ESTIMATES

This Management's Discussion and Analysis of Precision's financial condition and results of operations is based on Precision's consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS). These principles differ in certain respects from United States GAAP.

Precision's significant accounting policies are described in Note 3 to the consolidated financial statements. The preparation of the financial statements requires that certain estimates and judgments be made that affect the reported assets, liabilities, revenues and expenses. These estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot be done with certainty, therefore, these estimates may change as new events occur, more experience is acquired and as Precision's operating environment changes.

Following are the accounting estimates believed to require the most difficult, subjective or complex judgments and which are the most critical to Precision's reporting of results of operations and financial positions.

Allowance for Doubtful Accounts Receivable

Precision performs ongoing credit evaluations of its customers and grants credit based upon past payment history, financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. Precision's history of bad debt losses has been within expectations and generally limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry in Canada, the current state of debt and equity markets and the inherent risk of successfully finding hydrocarbon reserves, a customer's ability to fulfill its payment obligations can change suddenly and without notice. In cases where creditworthiness is uncertain, services are provided on receipt of cash in advance, on receipt of a letter of credit, on deposit of monies in trust or services are declined.

Impairment of Long-lived Assets

Long-lived assets, which include property, plant and equipment, intangibles and goodwill, comprise the majority of Precision's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For property, plant and equipment this requires Precision to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

The recoverability of goodwill requires a calculation of the recoverable amount of the cash generating unit ("CGU") or groups of CGUs to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Judgment is required in the aggregation of assets into CGUs. The recoverability calculation requires an estimation of the future cash flows from the CGU or group of CGUs and the appropriate discount rate to be applied. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Precision completed its impairment assessment in 2011 and 2010 and concluded that there was no impairment of the carrying value.

Depreciation and Amortization

Precision's property, plant and equipment and its intangible assets are depreciated and amortized based upon estimates of useful lives and salvage values. These estimates are based on data and information from various sources including vendors, industry practice and Precision's own historical experience and may change as more experience is gained, market conditions shift or new technological advancements are made.

The componentization of Precision's property, plant and equipment, specifically drilling rig equipment, is based upon management's judgment as to which components constitute a significant cost in relation to the entire item. The componentization process also requires management's judgment in assessing whether individual components have similar consumption patterns and useful lives.

Income Taxes

Deferred tax assets and liabilities arise from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and contain estimates regarding the nature and timing of reversal for the temporary differences as well as the future tax rates that will apply to those reversals. Deferred tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. Judgment is required to assess the recoverability of these unutilized tax losses and requires Precision to make significant estimates related to expectations of future taxable income. To the extent that future cash flows and taxable income differ significantly from estimates, or changes in tax laws in jurisdictions in which Precision operates occurs, the amount recorded as deferred taxes on the balance sheet could be impacted.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Overview of Business Risks

The discussion of risk that follows is not a complete representation. Additional information related to risks is disclosed in the 2011 Annual Information Form filed with SEDAR and available at www.sedar.com. Also refer to the “Cautionary Statement Regarding Forward-Looking Information and Statements” on page 3.

Certain activities of Precision are affected by factors that are beyond its control or influence. The drilling rig, directional drilling, camp and catering, service rig, snubbing, rentals, wastewater treatment and related service businesses and activities of Precision in Canada and the drilling rig, directional drilling, turnkey drilling, 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 and earnings.

Crude Oil and Natural Gas Prices

Precision sells its services to oil and natural gas exploration and production companies. Macroeconomic 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, although the differential between benchmarks such as WTI and European Brent crude oil can fluctuate. As in all markets, when supply, demand and other market factors change, so can the spreads between benchmarks. Natural gas is most economically transported in its gaseous state via pipeline, and its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. However, recent developments in the transportation of liquefied natural gas in ocean going tanker ships have introduced an element of globalization to the natural gas market. The volatility of crude oil and natural gas prices accounts for much of the cyclical nature of the oilfield services business.

To partially mitigate the risk associated with demand for our services Precision maintains as variable a cost structure as it can while continuing to enable it to provide the level of service expected of its customers.

Business is Seasonal and Highly Variable

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

Workforce Availability

Precision may not be able to find enough skilled labour to meet its needs, which could limit growth. Precision may also have problems finding enough skilled and unskilled labourers in the future if demand for Precision's services increases. Shortages of qualified personnel have occurred in the past during periods of high demand. The demand for qualified rig personnel generally increases as a result of overall stronger demand for land drilling services and as new and refurbished rigs are brought into service by Precision and its competitors. Increased demand has typically leads to wage rate increases which may or may not be reflected by service rate increases.

To mitigate labour risk Precision closely monitors crew availability for field operations. To retain and attract field personnel Precision focuses on initiatives that provide a safe and productive work environment, opportunity for advancement and added wage security. Precision works to ensure future field personnel requirements through programs like its "Toughnecks" recruiting program.

Credit Market Conditions May Adversely Affect Business

The ability to make scheduled debt repayments, to refinance debt obligations or access financing depends on the financial condition and operating performance of Precision, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond its control. Continued or future volatility in the credit markets may increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect Precision's, or third parties it seeks to do business with, ability to access those markets. Precision may be unable to maintain a level of cash flow from operating activities sufficient to permit it to pay the principal, premium, if any, and interest on its indebtedness.

In addition, should there be continued or future volatility or uncertainty in the capital markets, access to financing may be uncertain, which may have an adverse effect on the industry in which Precision operates and its business, including future operating results. Precision's customers may curtail their drilling programs, which could result in a decrease in demand for drilling rigs and a reduction in dayrates, reduction in the number and profitability of turnkey jobs and/or utilization. In addition, certain customers could experience an inability to pay suppliers, including Precision, in the event they are unable to access the capital markets to fund their business operations.

Access to Additional Financing

Precision may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures, to repay existing or future indebtedness (including the Secured Facility, the 6.625% Senior Notes due 2020, the 6.5% Senior Notes due 2019 and the 6.5% Senior Notes due 2021) or to undertake acquisitions or other business combination transactions. Continued or future volatility or uncertainty in the credit markets may increase costs associated with issuing debt and Precision cannot assure that additional financing will be available to it when needed or on terms acceptable or favorable to Precision. Precision's inability to raise financing to support ongoing operations or to fund capital expenditures, acquisitions, debt repayments or other business combination transactions could limit growth and may have a material adverse effect on Precision's revenues, cash flows and profitability.

To mitigate credit and financing risks Precision regularly assesses its credit policies and capital structure. Precision currently maintains sufficient liquidity as described in the capital and liquidity management section earlier in this report.

Technology

Complex drilling programs for the exploration and development of conventional and unconventional oil and natural gas reserves demand high performance drilling rigs. The ability of drilling rig service providers to meet this demand will depend on continuous improvement of existing rig technology such as drive systems, control systems, automation, mud systems and top drives to improve drilling efficiency. Precision's ability to deliver equipment and services that meet customer demand is critical to its continued success. Precision cannot assure that competitors will not achieve technological improvements that are more advantageous, timely or cost effective than improvements developed by Precision.

To attempt to mitigate this risk Precision has an experienced internal engineering department which works closely with operations and marketing on equipment design and improvements.

Competitive Industry

The contract drilling business is highly competitive with numerous industry participants, and the drilling contracts Precision competes for are usually awarded on the basis of competitive bids. Precision believes pricing and rig availability are the primary factors considered by Precision's potential customers in determining which drilling contractor to select. Precision believes other factors are also important. Among those factors are: the drilling capabilities and condition of drilling rigs; the quality of service and experience of rig crews; the safety record of the contractor and the particular drilling rig; the offering of ancillary services; the ability to provide drilling equipment adaptable to, and personnel familiar with, new technologies and drilling techniques; and the mobility and efficiency of rigs.

International Operations

Precision conducts a portion of its business outside of Canada and the United States, in areas such as Mexico and the Kingdom of Saudi Arabia. In addition, Precision's growth plans contemplate establishing operations in additional foreign countries, including countries where the political and economic systems may be less stable than those in Canada or the United States. Precision's international operations are subject to risks normally associated with conducting business in foreign countries, including, but not limited to: uncertain political and economic environments; the loss of revenue, property and equipment as a result of expropriation, nationalization, war, terrorist threats, civil insurrection and geopolitical and other political risks; fluctuations in foreign currency and exchange controls; increases in duties, taxes and governmental royalties; renegotiation of contracts with governmental entities; and changes in laws and policies governing operations of foreign-based companies. If a dispute arises out of Precision's international operations, Precision may be subject to the exclusive jurisdiction of foreign courts or may not be able to subject foreign persons to the jurisdiction of a court in Canada or the United States.

Capital Overbuild in the Drilling Industry

Periods of high demand often promote increased capital expenditures on oilfield service equipment, including drilling rigs. The number of drilling rigs competing for work in the market areas where Precision operates has increased due to the entry into those markets of newly-built or upgraded rigs, including as a result of Precision's capital expenditure program. Precision expects that more of these newer rigs will continue to enter market areas where Precision operates. As a result of the relatively long life span of oilfield service equipment and the waiting period between the time a decision is made to upgrade or build new equipment and the time such equipment is placed into service, the supply of drilling rigs in the industry may exceed actual demand. Excess supply as result of industry-wide capital expenditures could lead to reduced demand for term drilling contracts and Precision's equipment and services. Furthermore, the addition of these drilling rigs has and could continue to intensify price competition and could possibly lead to a decrease in rates in the oilfield services industry generally. The materialization of the above factors would have an adverse effect on Precision's revenues, cash flows and earnings.

Tax Consequences of Previous Transactions Completed by Precision

The business and operations of Precision are complex and Precision has executed a number of significant financings, business combinations, acquisitions and dispositions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Precision's interpretation of relevant tax legislation and regulations. Precision's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, there are tax filing positions that have been and can still be the subject of review by taxation authorities who may successfully challenge Precision's interpretation of the applicable tax legislation and regulations, with the result that additional taxes could be payable by Precision and the amount owed, with estimated interest but without penalties, could be up to $58 million.

Environmental

Precision's operations are subject to numerous laws, regulations and guidelines relating to the protection of the environment and of health and safety, including those governing the management, transportation and disposal of hazardous substances and other waste materials. These laws, regulations and guidelines include those relating to spills, releases, emissions and discharges of hazardous substances or other waste materials into the environment, requiring removal or remediation of pollutants or contaminants and imposing civil and criminal penalties for violations. Some of the laws, regulations and guidelines that apply to Precision's operations also authorize the recovery of natural resource damages by the government, injunctive relief, and the imposition of stop, control, remediation and abandonment orders. Additionally, Precision's land drilling operations may be conducted in or near ecologically sensitive areas, such as wetlands, which are subject to special protective measures and which may expose Precision to additional operating costs and liabilities for noncompliance with applicable laws. Some environmental laws and regulations may impose strict, and in certain cases joint and several, liability, which means that in some situations Precision could be exposed to liability as a result of conduct that was lawful at the time it occurred or conduct of, or conditions caused by, prior operators or other third parties, including any such liability related to any offsite treatment or disposal facility. The costs arising from compliance with such laws, regulations and guidelines may be material to Precision.

The issue of energy and the environment has created intense public debate in Canada and around the world in recent years that is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment. Any regulatory changes that impose additional environmental restrictions or requirements on Precision or its customers could adversely affect Precision through increased operating costs and potential decreased demand for Precision's services. For example, there is growing concern about the apparent connection between the burning of fossil fuels and climate change. Laws, regulations or treaties concerning climate change or greenhouse gas emissions may have an adverse impact on the demand for oil and natural gas, which could have a material adverse effect on Precision. Additionally, governments in Canada and the United States are reviewing more stringent regulation or restriction of hydraulic fracturing, a technology used by certain of Precision's customers which involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production, which could negatively impact the exploration of unconventional energy resources which are not commercially viable without the use of hydraulic fracturing. Laws relating to hydraulic fracturing are in various stages of development at levels of governments in markets where Precision operates. There can be no assurance of the outcome of these developments, their effect on the regulatory landscape and the contract drilling industry, or that additional governmental organizations will not in the future choose to review and seek to pass legislation in respect of hydraulic fracturing.

While Precision maintains liability insurance, including insurance for certain environmental claims, the insurance is subject to coverage limits and certain of Precision's policies exclude coverage for damages resulting from environmental contamination. Precision cannot assure that insurance will continue to be available to Precision on commercially reasonable terms, that the possible types of liabilities that may be incurred by Precision will be covered by its insurance, or that the dollar amount of such liabilities will not exceed Precision's policy limits. Even a partially uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on Precision's business, results of operations and prospects.

Foreign Exchange Exposure

Precision's United States and international operations have revenue, expenses, assets and liabilities denominated in currencies other than the Canadian dollar, principally in United States dollars and currencies which are pegged to the United States dollar. As a result, Precision's income statement, balance sheet and statement of cash flow are impacted by changes in currency exchange rates.

- **Translation into Canadian Dollars**. For the purpose of preparing Precision's consolidated financial statements, the financial statements of each foreign operation that does not have a Canadian dollar functional currency are translated into Canadian dollars. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates for the month of the respective transaction. Gains or losses resulting from these translation adjustments are recognized initially in other comprehensive income and reclassified from equity to net earnings on disposal or partial disposal of the foreign operation. Changes in currency exchange rates could materially increase or decrease Precision's foreign currency-denominated net assets on consolidation which would increase or decrease, as applicable, shareholders' equity. As well, changes in currency exchange rates will affect the translation of the revenue and expenses of Precision's United States and international operations and will result in lower or higher net earnings than would have occurred had the exchange rate not changed. If the Canadian dollar strengthens versus the United States dollar, the Canadian dollar equivalent of net earnings from international operations will be negatively impacted.
- **Transaction Exposure**. Precision has long-term debt denominated in United States dollars. Precision has designated its United States dollar denominated unsecured senior notes as a hedge against the net asset position of its United States operations. This debt is converted at the exchange rate in effect at the balance sheet dates with the resulting gains or losses included in the statement of comprehensive income. If the Canadian dollar strengthens versus the United States dollar, Precision will incur a foreign exchange gain from the translation of this debt. The vast majority of Precision's international operations are transacted in United States dollars or United States dollar-pegged currencies. Transactions for Precision's Canadian operations are primarily transacted in Canadian dollars. However, Precision occasionally purchases goods and supplies in United States dollars for its Canadian operations. These types of transactions and foreign exchange exposure would not typically have a material impact on Precision's financial results.

Safety Risk

Standards for the prevention of incidents in the oil and gas industry are governed by service company safety policies and procedures, accepted industry safety practices, customer-specific safety requirements and health and safety legislation. A key factor considered by Precision's customers in selecting oilfield service providers is safety. Deterioration in Precision's safety performance could result in a decline in the demand for services and could have a material adverse effect on Precision's revenues, cash flows and earnings.

Through its Target Zero program Precision maintains a comprehensive training and assessment program designed to work towards a vision of no work place incidents resulting in injury.

Dependence on Third Party Suppliers

Precision sources certain key rig components, raw materials, equipment and component parts from a variety of suppliers located in Canada, the United States and overseas. Precision also outsources some or all services for the construction of drilling and service rigs, including for new build rigs announced as part of Precision's capital expenditure program. While Precision maintains relationships with a number of key suppliers and contractors, maintains an inventory of key components, materials, equipment and parts and orders long lead time components in advance, Precision may be subject to cost increases, delays in delivery due to the high activity or financial hardship of suppliers or contractors, or other unforeseen circumstances relating to third parties. If current or alternate suppliers are unable to provide or deliver the necessary components, materials, equipment, parts and services Precision requires as part of its businesses, including the construction of new build drilling rigs, any resulting delays by Precision in the provision of services to customers may have a material adverse effect on Precision's revenues, cash flows and earnings.

To mitigate this risk Precision maintains relationships with a number of key suppliers and uses internal procurement operations when appropriate.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian and United States securities laws. The information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2011, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of Precision's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities and by the United States Securities and Exchange Commission. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Precision's disclosure controls and procedures were effective as at December 31, 2011.

During the fourth quarter of 2011, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect, Precision's internal control over financial reporting.

It should be noted that while Precision's President and Chief Executive Officer and Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Corporation's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Additional GAAP Measures

Precision uses certain additional GAAP measures that are not defined terms under IFRS to assess performance and believes these measures provide useful supplemental information to investors. The following are the measures Precision uses in assessing performance.

EBITDA

Management believes that in addition to net earnings, earnings before income taxes, other items, loss on asset decommissioning and depreciation and amortization, ("EBITDA"), as derived from information reported in the Consolidated Statements of Earnings, is a useful supplemental measure as it provides an indication of the results generated by Precision's principal business activities prior to consideration of how those activities are financed, the impact of foreign exchange, how the results are taxed, how non-cash depreciation and amortization charges or how non-cash decommissioning charges affect results.

Operating Earnings

Management believes that in addition to net earnings, operating earnings as reported in the Consolidated Statements of Earnings is a useful supplemental measure as it provides an indication of the results generated by Precision's principal business activities prior to consideration of how those activities are financed, the impact of foreign exchange or how the results are taxed.

Funds Provided by Operations

Management believes that in addition to cash provided by operations, funds provided by operations, as reported in the Consolidated Statements of Cash Flow is a useful supplemental measure as it provides an indication of the funds generated by Precision's principal business activities prior to consideration of working capital, which is primarily made up of highly liquid balances.

Management's Report to the Shareholders

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

Management has prepared Management's Discussion and Analysis ("MD&A"). The MD&A is based upon Precision Drilling Corporation's (the "Corporation") financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2011 to December 31, 2010 and the years ended December 31, 2010 to December 31, 2009.

Management is responsible for establishing and maintaining adequate internal control over the Corporation's financial reporting and is supported by an internal audit function who conducts periodic testing of these controls. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with direction from our principal executive officer and principal financial and accounting officer, management conducted an evaluation of the effectiveness of the Corporation's internal control over financial reporting. Management's evaluation of internal control over financial reporting was based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2011. Also management determined that there were no material weaknesses in the Corporation's internal control over financial reporting as of December 31, 2011.

KPMG LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Corporation's most recent annual meeting, to audit the consolidated financial statements and provide an independent professional opinion.

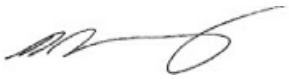
KPMG LLP completed an audit of the design and effectiveness of the Corporation's internal control over financial reporting as of December 31, 2011, as stated in their report included herein and expressed an unqualified opinion on design and effectiveness of internal control over financial reporting as of December 31, 2011.

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



Kevin A. Neveu
President and
Chief Executive Officer
Precision Drilling Corporation,

March 9, 2012



Robert J. McNally
Executive Vice President and
Chief Financial Officer
Precision Drilling Corporation

March 9, 2012

Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders and Board of Directors of Precision Drilling Corporation

We have audited the accompanying consolidated financial statements of Precision Drilling Corporation (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstance. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Precision Drilling Corporation's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2012 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Calgary, Alberta, Canada

March 9, 2012

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Precision Drilling Corporation

We have audited Precision Drilling Corporation's (the "Corporation") internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report to the Shareholders. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Corporation as of December 31, 2011, December 31, 2010 and January 1, 2010, and the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2011 and December 31, 2010, and our report dated March 9, 2012 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Calgary, Alberta

March 9, 2012

Consolidated Statements of Financial Position

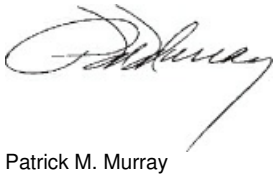
(Stated in thousands of Canadian dollars)		**December 31, 2011**	December 31, 2010	January 1, 2010
ASSETS				
Current assets:				
Cash		**$ 467,476**	$ 256,831	$ 130,799
Accounts receivable	*(Note 25)*	**576,243**	414,901	283,899
Income tax recoverable		**–**	–	25,753
Inventory		**7,163**	4,933	9,008
Total current assets		**1,050,882**	676,665	449,459
Non-current assets:				
Income tax recoverable		**64,579**	64,579	64,579
Property, plant and equipment	*(Note 6)*	**2,942,296**	2,532,398	2,653,204
Intangibles	*(Note 7)*	**6,471**	6,366	3,156
Goodwill	*(Note 8)*	**363,646**	284,532	284,537
Total non-current assets		**3,376,992**	2,887,875	3,005,476
Total assets		**$ 4,427,874**	$ 3,564,540	$ 3,454,935
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	*(Note 25)*	**$ 436,667**	$ 217,799	$ 134,974
Income tax payable		**3,786**	863	–
Long-term debt	*(Note 12)*	**–**	–	223
Total current liabilities		**440,453**	218,662	135,197
Non-current liabilities:				
Share based compensation	*(Note 10)*	**11,303**	12,268	6,602
Provisions and other	*(Note 11)*	**16,121**	18,051	100,205
Long-term debt	*(Note 12)*	**1,239,616**	804,494	748,725
Deferred tax liabilities	*(Note 13)*	**587,790**	578,239	620,459
Total non-current liabilities		**1,854,830**	1,413,052	1,475,991
Contingencies and guarantees	*(Note 26)*			
Commitments	*(Note 19)*			
Shareholders' equity:				
Shareholders' capital	*(Note 14)*	**2,248,217**	2,244,417	–
Unitholders' capital	*(Note 14)*	**–**	–	2,163,919
Contributed surplus		**18,396**	11,266	–
Deficit		**(83,160)**	(276,637)	(320,172)
Accumulated other comprehensive loss	*(Note 15)*	**(50,862)**	(46,220)	–
Total shareholders' equity		**2,132,591**	1,932,826	1,843,747
Total liabilities and shareholders' equity		**$ 4,427,874**	$ 3,564,540	$ 3,454,935

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:



Robert J.S. Gibson
Director



Patrick M. Murray
Director

Consolidated Statements of Earnings

Years ended December 31, (Stated in thousands of Canadian dollars, except per share amounts)		2011	2010
Revenue		**$1,951,027**	$1,429,653
Expenses:			
Operating	*(Note 25)*	**1,131,022**	886,751
General and administrative	*(Note 25)*	**124,941**	107,994
Earnings before income taxes, other items, loss on asset decommissioning and depreciation and amortization		**695,064**	434,908
Depreciation and amortization		**251,483**	210,103
Loss on asset decommissioning	*(Note 6)*	**114,893**	–
Operating earnings		**328,688**	224,805
Other items:			
Foreign exchange		**(23,674)**	(12,712)
Finance charges	*(Note 16)*	**115,332**	211,327
Other		**(3,754)**	–
Earnings before tax		**240,784**	26,190
Income taxes:	*(Note 13)*		
Current		**43,779**	7,634
Deferred		**3,528**	(24,979)
		47,307	(17,345)
Net earnings		**$ 193,477**	$ 43,535
Earnings per share:	*(Note 20)*		
Basic		**$ 0.70**	$ 0.16
Diluted		**$ 0.67**	$ 0.15

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, (Stated in thousands of Canadian dollars)	2011	2010
Net earnings	**$ 193,477**	$ 43,535
Unrealized gain (loss) on translation of assets and liabilities of operations denominated in foreign currency	**33,050**	(61,037)
Foreign exchange gain (loss) on net investment hedge with U.S. denominated debt, net of tax ($2,148 recovery; 2010 – $2,148 expense)	**(37,692)**	14,817
Comprehensive income (loss)	**$ 188,835**	$ (2,685)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

Years ended December 31, *(Stated in thousands of Canadian dollars)*		**2011**	2010
Cash provided by (used in):			
Operations:			
Net earnings		**$ 193,477**	$ 43,535
Adjustments for:			
Long-term compensation plans		**20,555**	12,996
Depreciation and amortization		**251,483**	210,103
Loss on asset decommissioning		**114,893**	–
Foreign exchange		**(24,330)**	(12,480)
Finance charges		**115,332**	211,327
Income taxes		**47,307**	(17,345)
Other		**(6,318)**	(1,093)
Income taxes paid		**(124,682)**	(11,187)
Income taxes recovered		**82,883**	30,424
Interest paid		**(79,902)**	(62,832)
Interest received		**1,690**	717
Funds provided by operations		**592,388**	404,165
Changes in non-cash working capital balances	*(Note 25)*	**(59,616)**	(97,901)
		532,772	306,264
Investments:			
Business acquisitions, net of cash acquired	*(Note 21)*	**(92,886)**	–
Purchase of property, plant and equipment	*(Note 6)*	**(726,357)**	(175,901)
Proceeds on sale of property, plant and equipment		**15,983**	12,256
Changes in non-cash working capital balances	*(Note 25)*	**87,798**	45,532
		(715,462)	(118,113)
Financing:			
Repayment of long-term debt		**(175,000)**	(696,863)
Premium paid on settlement of unsecured senior notes	*(Note 12)*	**(26,688)**	–
Debt issue costs		**(13,303)**	(26,382)
Debt facility amendment costs		**(1,134)**	(869)
Re-purchase of trust units of dissenting unitholders		**–**	(6)
Increase in long-term debt		**581,520**	663,455
Issuance of common shares on the exercise of options		**2,238**	122
Changes in non-cash working capital balances	*(Note 25)*	**(746)**	985
		366,887	(59,558)
Effect of exchange rate changes on cash and cash equivalents		**26,448**	(2,561)
Increase in cash and cash equivalents		**210,645**	126,032
Cash and cash equivalents, beginning of year		**256,831**	130,799
Cash and cash equivalents, end of year		**$ 467,476**	$ 256,831

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(Stated in thousands of Canadian dollars)		Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss *(Note 15)*	Deficit	Total equity
Balance at January 1, 2011		$ 2,244,417	$ 11,266	$ (46,220)	$ (276,637)	$ 1,932,826
Net earnings for the period		–	–	–	193,477	193,477
Other comprehensive loss for the period		–	–	(4,642)	–	(4,642)
Share options exercised	*(Note 14)*	3,416	(1,178)	–	–	2,238
Issued on redemption of non-management directors DSUs		384	(384)	–	–	–
Share based compensation expense	*(Note 10)*	–	8,692	–	–	8,692
Balance at December 31, 2011		**$ 2,248,217**	**$ 18,396**	**$ (50,862)**	**$ (83,160)**	**$ 2,132,591**

(Stated in thousands of Canadian dollars)		Shareholders'/ unitholders' capital	Contributed surplus	Accumulated other comprehensive loss *(Note 15)*	Deficit	Total equity
Balance at January 1, 2010		$ 2,163,919	$ –	$ –	$ (320,172)	$ 1,843,747
Net earnings for the year		–	–	–	43,535	43,535
Other comprehensive loss for the period		–	–	(46,220)	–	(46,220)
Issued on redemption of non-management directors DSUs		204	–	–	–	204
Cancellation of units owned by dissenting unitholders		(9)	3	–	–	(6)
Reclassification of exchangeable LP unit liability on conversion to a corporation		891	–	–	–	891
Reclassification of warrants liability on conversion to a corporation		79,205	–	–	–	79,205
Reclassification of share option plan and non-management directors DSU liabilities on conversion to a corporation		–	7,271	–	–	7,271
Share options exercised	*(Note 14)*	207	(85)	–	–	122
Share based compensation expense	*(Note 10)*	–	4,077	–	–	4,077
Balance at December 31, 2010		$ 2,244,417	$ 11,266	$ (46,220)	$ (276,637)	$ 1,932,826

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular amounts are stated in thousands of Canadian dollars except share numbers and per share amounts)

NOTE 1. DESCRIPTION OF BUSINESS

Precision Drilling Corporation ("Precision" or the "Corporation") is incorporated under the laws of the Province of Alberta, Canada and is a provider of contract drilling and completion and production services primarily to oil and natural gas exploration and production companies in Canada and the United States. The address of the registered office is 800, 525 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1G1.

On June 1, 2010 Precision Drilling Trust (the "Trust") completed its conversion (the "Conversion") from an income trust to a corporation pursuant to a Plan of Arrangement (the "Arrangement"). Pursuant to the Arrangement, Trust unitholders and Exchangeable LP unitholders exchanged their Trust units and Exchangeable LP units for common shares of the Corporation on a one-for-one basis.

The Conversion has been accounted for on a continuity of interest basis and accordingly these consolidated financial statements reflect the financial position, results of operations and cash flows as if Precision had always carried on the business formerly carried on by the Trust. All references to shares and shareholders in these financial statements pertain to common shares and common shareholders subsequent to the Conversion and units and unitholders prior to the Conversion.

NOTE 2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 4.

These consolidated financial statements were authorized for issue by the Board of Directors on March 9, 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis except as detailed in the Corporation's accounting policies in Note 3 and are presented in thousands of Canadian dollars.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingencies. These estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used in preparation of the consolidated financial statements may change as future events unfold, more experience is acquired or the Corporation's operating environment changes. Significant estimates and judgments used in the preparation of the financial statements are described in Note 3.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation
These consolidated financial statements include the accounts of the Corporation and all of its subsidiaries and partnerships substantially all of which are wholly-owned. The financial statements of the subsidiaries are prepared for the same period as the parent entity, using consistent accounting policies. All significant intercompany balances, transactions and any unrealized gains and losses arising from intercompany transactions, have been eliminated.

Subsidiaries are entities (including special-purpose entities) controlled by the Corporation. Control exists when Precision has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Precision does not hold investments in any companies where it exerts significant influence and does not hold interests in any special-purpose entities.

The acquisition method is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of earnings. Transaction costs, other than those associated with the issuance of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

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

(c) Inventory
Inventory is primarily comprised of operating supplies and is carried at the lower of average cost, being the cost to acquire the inventory, and net realizable value. Inventory is charged to operating expenses as items are sold or consumed at the amount of the average cost of the item.

(d) Property, plant and equipment
Property, plant and equipment are carried at cost, less accumulated depreciation and any accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment (repair and maintenance) are recognized in net earnings as incurred.

Property, plant, and equipment are depreciated as follows:

	Expected life	Salvage value	Basis of depreciation
Drilling rig equipment:			
– Power & Tubulars	1,700 utilization days	–	unit-of-production
– Dynamic	3,400 utilization days	–	unit-of-production
– Structural	5,000 utilization days	20%	unit-of-production
Service rig equipment	24,000 service hours	20%	unit-of-production
Drilling rig spare equipment	up to 15 years	–	straight-line
Service rig spare equipment	up to 15 years	–	straight-line
Rental equipment	10 to 15 years	0 to 25%	straight-line
Other equipment	3 to 10 years	–	straight-line
Light duty vehicles	4 years	–	straight-line
Heavy duty vehicles	7 to 10 years	–	straight-line
Buildings	10 to 20 years	–	straight-line

Assets that are depreciated on a unit of production method that have less than 60 utilization days (drilling rig equipment) or 600 service hours (service rig equipment) in a rolling 12 month period are deemed to be idle and are depreciated at a rate of five utilization days or 50 service hours per month until the asset exceeds the utilization threshold. Commencing January 1, 2012 certain tier three drilling rigs will be depreciated on a straight-line basis over their estimated remaining life of four years. This change in estimate will increase depreciation expense by approximately $15 million per year over this four year period.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized in the statements of earnings.

The estimated useful lives, residual values and methods or depreciation are reviewed annually, and adjusted prospectively if appropriate.

(e) Intangibles
Intangible assets that are acquired by the Corporation with finite lives are initially recorded at estimated fair value and subsequently measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits of the specific asset to which it relates.

Amortization is recognized in profit and loss using the straight-line method based over the estimated useful lives of the respective assets as follows:

Customer relationships	1 to 5 years
Patents	10 years
Brand	1 to 5 years

The estimated useful lives and methods of amortization are reviewed annually, and adjusted prospectively if appropriate.

(f) Goodwill
Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

If the fair value of the identifiable net assets acquired exceeds the fair value of the consideration, Precision reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed. If that excess remains after reassessment, Precision recognizes the resulting gain in profit or loss on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, attributed to the cash generating unit or groups of cash generating units that are expected to benefit and as identified in the business combination.

(g) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is tested for impairment if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, and indications that a debtor will enter bankruptcy. Precision considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All significant receivables found not to be specifically impaired are then collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in net earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net earnings.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed at the same time each year.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from the cash generating unit.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Borrowing costs

Interest and borrowing costs that are directly attributable to the acquisition, construction or production of assets that take a substantial period of time to prepare for their intended use are capitalized as part of the cost of those assets. Capitalization ceases during any extended period of suspension of construction or when substantially all activities necessary to prepare the asset for its intended use are complete.

All other interest and borrowing costs are recognized in net earnings in the period in which they are incurred.

(l) Income taxes
Income tax expense is recognized in net earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable or receivable on the taxable earnings or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in net earnings in the period that includes the date of enactment or substantive enactment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities that are expected to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Revenue recognition
The Corporation's services are generally sold based upon service orders or contracts with a customer that include fixed or determinable prices based upon daily, hourly or job rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services and equipment rentals are rendered and only when collectability is reasonably assured. The Corporation also provides services under turnkey contracts whereby it drills a well to an agreed upon depth under specified conditions for a fixed price, regardless of the time required or the problems encountered in drilling the well. Revenue from turnkey drilling contracts is recognized using the percentage-of-completion method based upon costs incurred to date and estimated total contract costs. Anticipated losses, if any, on uncompleted contracts are recorded at the time the estimated costs exceed the contract revenue.

(k) Employee benefit plans
Precision sponsors various defined contribution retirement plans for its employees. The Corporation's contributions to defined contribution plans are expensed as employees earn the entitlement.

(l) Provisions
Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(m) Share based incentive compensation plans
The Corporation has established several cash settled share based incentive compensation plans for officers and other eligible employees. The fair values as estimated by management of the amounts payable to eligible participants under these plans are recognized as an expense with a corresponding increase in liabilities over the period that the participants become unconditionally entitled to payment. The recorded liability is re-measured at the end of each reporting period until settlement with the resultant change to the fair value of the liability recognized in net earnings for the period. When the plans are settled, the cash paid reduces the outstanding liability.

An equity settled deferred share unit plan has been established whereby non-management directors of Precision can elect to receive all or a portion of their compensation in fully-vested deferred share units. Compensation expense is recognized based on the fair value price of the Corporation's shares at the date of grant with a corresponding increase to contributed surplus. Upon redemption of the deferred share units into common shares, the amount previously recognized in contributed surplus is recorded as an increase to shareholders' capital. Prior to the conversion from an income trust to a corporation, Trust units issued upon settlement of this plan were redeemable and therefore were accounted for as a liability based award. The liability was re-measured, until settlement, at the end of each reporting period with the resultant change being charged or credited to the statement of earnings as compensation expense. Upon conversion to a corporation the liability for the plan was reclassified to contributed surplus.

A share option plan has been established for certain eligible employees. Under this plan the fair value of share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the grant's vesting period with an offsetting credit to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the equity purchase option, the associated amount is reclassified from contributed surplus to shareholders' capital. Consideration paid by employees upon exercise of the equity purchase options is credited to shareholders' capital. Prior to the conversion from an income trust to a corporation, Trust units issued upon settlement of this plan were redeemable and therefore were accounted for as a liability based award. The liability was re-measured, until settlement, at the end of each reporting period with the resultant change being charged or credited to the statement of earnings as compensation expense. Upon conversion to a corporation the liability for this plan was reclassified from liabilities to contributed surplus with the remaining unamortized grant date fair value charged to earnings as compensation expense over the remaining service period of the awards.

(n) Foreign currency translation

Transactions of the Corporation's individual entities are recorded in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the entities functional currency are translated at rates in effect at the time of the transaction. At each period end monetary assets and liabilities are translated at the prevailing period end rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses are included in net earnings except for gains and losses on translation of long-term debt designated as a hedge of foreign operations which are deferred and included in accumulated other comprehensive income.

For the purpose of preparing the Corporation's consolidated financial statements, the financial statements of each foreign operation that does not have a Canadian dollar functional currency are translated into Canadian dollars. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates for the month of the respective transaction. Gains or losses resulting from these translation adjustments are recognized initially in other comprehensive income and reclassified from equity to net earnings on disposal or partial disposal of the foreign operation.

(o) Exchangeable LP units and warrants

Prior to Precision's conversion to a corporation, the issued and outstanding exchangeable LP units and warrants were treated as long–term financial liabilities. These financial liabilities were revalued at the end of each reporting period based on the period end trading price of Precision's Trust units with the resulting gains or losses included in earnings. Upon the exchange of LP units for Trust units, or the exercise of a warrant, the LP units or warrants were revalued to the trading price of Precision's Trust units on the date of exchange or exercise with the associated amount transferred from long-term liabilities to Shareholders' equity. Upon conversion to a corporation, the remaining exchangeable LP units and warrants were revalued and transferred to Shareholders' equity.

(p) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated by using the treasury stock method for equity based compensation arrangements. The treasury stock method assumes that any proceeds obtained on exercise of equity based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of shares issued from the exercise of equity based compensation arrangements and shares repurchased from the related proceeds.

(q) Financial instruments

(i) Non-derivative financial assets
Financial assets are classified as either fair value through profit and loss, loans and receivables, held to maturity or available for sale. Financial liabilities are classified as either fair value through profit and loss or other financial liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Transaction costs attributable to fair value through profit or loss items are expensed as incurred. Subsequent to initial recognition non-derivative financial instruments are measured based on their classification.

Accounts receivable are classified as "loans and receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to historical cost.

Accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to historical cost.

(ii) Derivative financial instruments
The Corporation may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in interest rates or exchange rates. These instruments are not used for trading or speculative purposes. Precision has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though it considers certain financial contracts to be economic hedges. As a result, financial derivative contracts are classified as fair value through net earnings and are recorded on the balance sheet at estimated fair value. Transaction costs are recognized in profit or loss when incurred.

Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at estimated fair value and changes in the fair value are recognized in net earnings.

(r) Hedge accounting
The Corporation utilizes foreign currency long-term debt to hedge its exposure to changes in the carrying values of the Corporation's net investment in certain foreign operations as a result of changes in foreign exchange rates.

To be accounted for as a hedge, the foreign currency long-term debt must be designated and documented as a hedge, and must be effective at inception and on an ongoing basis. The documentation defines the relationship between the foreign currency long-term debt and the net investment in the foreign operations, as well as the Corporation's risk management objective and strategy for undertaking the hedging transaction. The Corporation formally assesses, both at inception and on an ongoing basis whether the changes in fair value of the foreign currency long-term debt is highly effective in offsetting changes in fair value of the net investment in the foreign operations. The portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in other comprehensive income, net of tax, and is limited to the translation gain or loss on the net investment, while the ineffective portion is recorded in net earnings. If the hedging relationship is terminated or ceases to be effective, hedge accounting is not applied to subsequent gains or losses. The amounts recognized in other comprehensive income are reclassified to net earnings when corresponding exchange gains or losses arising from the translation of the foreign operation are recorded in net earnings.

(s) Critical accounting estimates and judgments

(i) Allowance for doubtful accounts receivable
Precision performs ongoing credit evaluations of its customers and grants credit based upon past payment history, financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions.

(ii) Property, plant and equipment
The componentization of Precision's property, plant and equipment, specifically drilling rig equipment, is based upon management's judgment as to which components constitute a significant cost in relation to the entire item. The componentization process also requires management's judgment in assessing whether individual components have similar consumption patterns and useful lives.

(iii) Depreciation and amortization
Precision's property, plant and equipment and its intangible assets are depreciated and amortized based upon estimates of useful lives and salvage values. These estimates are based on data and information from various sources including vendors, industry practice and Precision's own historical experience and may change as more experience is gained, market conditions shift or new technological advancements are made.

(iv) Impairment of long-lived assets
Long-lived assets, which include property, plant and equipment, intangibles and goodwill, comprise the majority of Precision's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For property, plant and equipment this requires Precision to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

The recoverability of goodwill requires a calculation of the recoverable amount of the cash generating unit ("CGU") or groups of CGUs to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Judgment is required in the aggregation of assets into CGUs. The recoverability calculation requires an estimation of the future cash flows from the CGU or group of CGUs and the appropriate discount rate to be applied. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

(v) Income taxes
Deferred tax assets and liabilities arise from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and contain estimates regarding the nature and timing of reversal for the temporary differences as well as the future tax rates that will apply to those reversals. Deferred tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. Judgment is required to assess the recoverability of these unutilized tax losses and requires Precision to make significant estimates related to expectations of future taxable income. To the extent that future cash flows and taxable income differ significantly from estimates, or changes in tax laws in jurisdictions in which Precision operates occurs, the amount recorded as deferred taxes on the balance sheet could be impacted.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

(vi) Share based compensation
Precision uses an option pricing model to determine the fair value of certain share based compensation awards. Inputs to the model requires estimates be made of interest rates, expected lives and forfeiture rates of the awards, and the price volatility of the Corporation's shares.

NOTE 4. FIRST TIME ADOPTION OF IFRS

As discussed in Note 2(a), this is the first year that the Corporation's consolidated financial statements have been prepared in accordance with IFRS. The accounting policies as described in Note 3 have been applied in preparing the financial statements for the years ended December 31, 2011 and 2010 and in preparation of the Corporation's opening statement of financial position at January 1, 2010 (the transition date).

In previous years, the Corporation prepared its consolidated financial statements in accordance with previous Canadian generally accepted accounting principles ("previous Canadian GAAP"). An explanation of how the transition from previous Canadian GAAP to IFRS has affected Precision's financial statements is set out in the following tables and accompanying notes.

Reconciliation of Consolidated Statement of Financial Position at January 1, 2010 (Transition Date)

(Stated in thousands of Canadian dollars)		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets:				
Cash		$ 130,799	$ –	$ 130,799
Accounts receivable		283,899	–	283,899
Income tax recoverable		25,753	–	25,753
Inventory		9,008	–	9,008
		449,459	–	449,459
Income tax recoverable		64,579	–	64,579
Property, plant and equipment	*(b)*	2,913,966	(260,762)	2,653,204
Intangibles		3,156	–	3,156
Goodwill	*(a)*	760,553	(476,016)	284,537
		$4,191,713	$(736,778)	$3,454,935
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	*(c)*	$ 128,376	$ 6,598	$ 134,974
Current portion of long-term debt		223	–	223
		128,599	6,598	135,197
Long-term liabilities	*(e),(f)*	26,693	80,114	106,807
Long-term debt		748,725	–	748,725
Deferred tax liabilities	*(b),(c)*	703,195	(82,736)	620,459
		1,607,212	3,976	1,611,188
Shareholders' equity:				
Shareholders' capital	*(a),(e),(f)*	2,770,708	(606,789)	2,163,919
Contributed surplus	*(c)*	4,063	(4,063)	–
Retained earnings (Deficit)	*(a),(b),(c),(e),(f),(g)*	107,227	(427,399)	(320,172)
Accumulated other comprehensive income (loss)	*(g)*	(297,497)	297,497	–
		2,584,501	(740,754)	1,843,747
		$4,191,713	$(736,778)	$3,454,935

Reconciliation of Consolidated Statement of Financial Position at December 31, 2010

(Stated in thousands of Canadian dollars)		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets:				
Cash		$ 256,831	$ –	$ 256,831
Accounts receivable		414,901	–	414,901
Income tax recoverable		–	–	–
Inventory		4,933	–	4,933
		676,665	–	676,665
Income tax recoverable		64,579	–	64,579
Property, plant and equipment	*(b)*	2,812,281	(279,883)	2,532,398
Intangibles		6,366	–	6,366
Goodwill	*(a)*	736,897	(452,365)	284,532
		$4,296,788	$(732,248)	$3,564,540
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	*(c)*	$ 215,653	$ 2,146	$ 217,799
Income tax payable		863	–	863
		216,516	2,146	218,662
Long-term liabilities	*(e),(f)*	30,319	–	30,319
Long-term debt		804,494	–	804,494
Deferred tax liabilities	*(b),(c)*	667,540	(89,301)	578,239
		1,718,869	(87,155)	1,631,714
Shareholders' equity:				
Shareholders' capital	*(a),(e),(f)*	2,771,023	(526,606)	2,244,417
Contributed surplus	*(c)*	10,471	795	11,266
Retained earnings (Deficit)	*(a),(b),(c),(e),(f),(g)*	169,318	(445,955)	(276,637)
Accumulated other comprehensive income (loss)	*(g)*	(372,893)	326,673	(46,220)
		2,577,919	(645,093)	1,932,826
		$4,296,788	$(732,248)	$3,564,540

Reconciliation of Consolidated Statement of Earnings for the year ended December 31, 2010

(Stated in thousands of Canadian dollars)		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		$1,429,653	$ –	$1,429,653
Expenses:				
Operating	*(c)*	886,748	3	886,751
General and administrative	*(c),(e)*	107,522	472	107,994
Depreciation and amortization	*(b)*	182,719	27,384	210,103
Foreign exchange		(12,712)	–	(12,712)
Finance charges		211,327	–	211,327
Earnings before income taxes		54,049	(27,859)	26,190
Income taxes:				
Current		7,634	–	7,634
Deferred	*(b),(c)*	(15,676)	(9,303)	(24,979)
		(8,042)	(9,303)	(17,345)
Net earnings		62,091	(18,556)	43,535
Retained earnings (Deficit), beginning of period	*(a),(b),(c),(e),(f),(g)*	107,227	(427,399)	(320,172)
Retained earnings (Deficit), end of period		$ 169,318	$(445,955)	$ (276,637)
Earnings per share:				
Basic		$ 0.23		$ 0.16
Diluted		$ 0.22		$ 0.15

Reconciliation of Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31, 2010

(Stated in thousands of Canadian dollars)		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Net earnings		$ 62,091	$ (18,556)	$ 43,535
Unrealized gain (loss) on translation of assets and liabilities of self-sustaining operations denominated in foreign currency	*(a),(b)*	(90,213)	29,176	(61,037)
Foreign exchange gain on net investment hedge with U.S. denominated debt, net of tax of $2,148		14,817	–	14,817
Comprehensive income (loss)		$ (13,305)	$ 10,620	$ (2,685)

(a) Business combinations

As permitted under IFRS 1, Precision has elected to apply IFRS 3 “Business Combinations” retrospectively to acquisitions occurring on or after December 23, 2008. The only acquisition to be restated upon making this election was the acquisition of Grey Wolf Inc. (“Grey Wolf”) which was completed on December 23, 2008. The application of IFRS 3 would cause the acquisition to be restated as follows:

	Canadian GAAP	IFRS
Net assets at assigned values:		
Working capital	$ 470,586	$ 470,586
Property, plant and equipment	1,869,875	1,869,875
Intangible assets	4,428	77,643
Goodwill (no tax basis)	553,335	(103,109)
Long-term liabilities	(23,308)	(23,308)
Long-term debt	(319,115)	(319,115)
Deferred tax liabilities	(553,682)	(581,504)
	$ 2,002,119	$ 1,391,068
Consideration:		
Cash	$ 1,113,034	$ 1,091,522
Trust units	889,085	299,546
	$ 2,002,119	$ 1,391,068

The principal changes from applying IFRS 3 was that:

- purchase consideration was valued based on the share price at the date the acquisition closed rather than on the date the acquisition was announced;
- acquisition costs of $22 million were expensed in the period incurred;
- an additional intangible asset relating to the purchased name was recognized and, given Precision’s intent not to use the name long-term, was fully amortized in 2009; and
- the negative goodwill created from the acquisition was immediately recognized in earnings.

The impacts on the financial statements were as follows:

(Stated in thousands of Canadian dollars)	As at and for the year ended December 31, 2010	As at January 1, 2010
Goodwill	$ (452,365)	$ (476,016)
Shareholders’ capital	(589,539)	(589,539)
Retained earnings	113,523	113,523
Accumulated other comprehensive income (loss)	23,651	–
Other comprehensive income (loss)	23,651	–

(b) Property, Plant and Equipment

In accordance with IFRS 1, Precision has elected to fair value selected drilling rigs located in the United States and Canada. The fair value election for certain rigs has resulted in an adjustment to the carrying value of $146 million at January 1, 2010. For the remaining property, plant and equipment, historical records were built from inception of Precision using principles of IAS 16 Property Plant and Equipment. This has resulted in a decrease in the carrying value of property, plant and equipment of $115 million at January 1, 2010. The adjustment to the carrying values resulted in a decrease to deferred income tax liability of $82 million at the transition date.

The impacts on the financial statements were as follows:

(Stated in thousands of Canadian dollars)	As at and for the year ended December 31, 2010	As at January 1, 2010
Property, plant and equipment	$ (279,883)	$ (260,762)
Deferred tax liabilities	(88,013)	(81,979)
Retained earnings	(178,783)	(178,783)
Accumulated other comprehensive income	5,525	–
Depreciation and amortization	27,384	–
Deferred income tax expense	(8,772)	–
Other comprehensive income	5,525	–

(c) Share based compensation

Prior to Precision's conversion to a corporation, the capital structure consisted of Trust units and exchangeable LP units which contained features that allowed the units to be redeemed for cash at any time and on demand by the unitholder. Under IFRS, as a result of this redemption feature, Precision's equity settled share based compensation plan for non-management directors and share option plan for employees were required to be accounted for as liability based awards and be re-measured until settlement at the end of each reporting period. Under previous Canadian GAAP the share-based compensation plan for non-management directors was accounted for by reference to the trading value of the Corporation's shares at the date of grant while the share option plan was treated as an equity settled award and valued based on the fair value of the option at the date of grant using the Black-Scholes option pricing model. The net effect of these differences is to decrease retained earnings by $1 million for additional compensation expense (net of tax), remove $4 million from contributed surplus and record $5 million in current liabilities at the date of transition.

Precision has a cash settled share appreciation rights plan ("SAR") which under previous Canadian GAAP was recorded based on the intrinsic value method which uses the balance sheet date share price to value the associated liability. IFRS requires the use of an option pricing model to fair value the SAR. The differences in methodology resulted in a decrease to retained earnings of $1 million for additional compensation expense (net of tax) and a $2 million increase to current liabilities at the date of transition.

The impacts on the financial statements were as follows:

(Stated in thousands of Canadian dollars)	As at and for the year ended December 31, 2010	As at January 1, 2010
Accounts payable and accrued liabilities	$ 2,146	$ 6,598
Deferred tax liabilities	(1,288)	(757)
Shareholders' capital	87	–
Contributed surplus	795	(4,063)
Retained earnings	(1,778)	(1,778)
Operating expense	3	–
General and administrative expense	490	–
Deferred income tax expense	(531)	–

(d) Borrowing costs
Under previous Canadian GAAP, Precision expensed borrowing costs as incurred. At the date of transition, Precision elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the date of transition.

(e) Exchangeable LP units
Prior to Precision's conversion to a corporation, it had issued and outstanding exchangeable LP units which under IFRS would be considered a financial liability. This financial liability would be revalued at the end of each reporting period based on the period end trading price of Precision's Trust units with the resulting gains or losses included in earnings. Upon the exchange of LP units for Trust units, the LP unit would be revalued to the trading price of Precision's Trust unit on the date of exchange with the associated amount transferred from long-term liabilities to Shareholders' equity.

The impacts on the financial statements were as follows:

(Stated in thousands of Canadian dollars)	As at and for the year ended December 31, 2010	As at January 1, 2010
Long-term liabilities	$ –	$ 909
Shareholders' capital	18,460	17,569
Retained earnings	(18,478)	(18,478)
General and administrative expense	(18)	–

(f) Warrants
Prior to Precision's conversion to a corporation, the capital structure consisted of Trust units and exchangeable LP units which contained features that allowed the units to be redeemed for cash at any time and on demand by the unitholder. Under IFRS as a result of this redemption feature, Precision's warrants were required to be accounted for as a liability and be re-measured until settlement at the end of each reporting period.

The impacts on the financial statements were as follows:

(Stated in thousands of Canadian dollars)	As at and for the year ended December 31, 2010	As at January 1, 2010
Long-term liabilities	$ –	$ 79,205
Shareholders' capital	44,386	(34,819)
Retained earnings	(44,386)	(44,386)

(g) Cumulative translation differences
In accordance with IFRS 1, Precision has elected to reset the cumulative translation adjustments included in accumulated other comprehensive loss prior to the date of transition to be nil.

The impacts on the financial statements were as follows:

(Stated in thousands of Canadian dollars)	As at and for the year ended December 31, 2010	As at January 1, 2010
Retained earnings	$ (297,497)	$ (297,497)
Accumulated other comprehensive income (loss)	297,497	297,497

(h) Retained earnings

The impact of IFRS on Precision's retained earnings as at the transition date is as follows:

(Stated in thousands of Canadian dollars)	*Note*	As at January 1, 2010
Business combination:	*(a)*	
Acquisition costs		$ (21,512)
Amortization of intangibles		(68,677)
Negative goodwill		103,109
Foreign exchange		74,506
Deferred income tax		26,097
		113,523
Fair value of selected rigs net of depreciation	*(b)*	(145,868)
Calculation of historical property, plant and equipment cost net of depreciation	*(b)*	(114,894)
Deferred tax on property, plant and equipment adjustments	*(b)*	81,979
Unit based compensation	*(c)*	(1,778)
Foreign currency translation adjustment	*(g)*	(297,497)
Exchangeable LP units	*(e)*	(18,478)
Warrants	*(f)*	(44,386)
Decrease in retained earnings		$ (427,399)

(i) Statement of cash flow

The adoption of IFRS did not change the operating, investing and financing cash flows as prepared in accordance with previous Canadian GAAP.

NOTE 5. RECENTLY ANNOUNCED ACCOUNTING PRONOUNCEMENTS NOT YET APPLIED

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* which requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation-Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. This new standard is applicable for periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation does not anticipate the adoption of this standard to have a material impact on its financial statements.

In May 2011, the IASB issued IFRS 11 *Joint Arrangements* which requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have a choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures* and SIC 13, *Jointly Controlled Entities-Non-monetary Contributions by Venturers*. This new standard is applicable for periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation does not anticipate the adoption of this standard to have a material impact on its financial statements.

In May 2011, the IASB issued IFRS 12 *Disclosure of Interest in Other Entities* which aggregates and amends disclosure requirements included within other standards. This standard introduces significant additional disclosure requirements that address the nature of, and risks associated with an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is applicable for periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRSs. This standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. This new standard is applicable for periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. This amendment requires that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. This amended standard is applicable for periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation does not anticipate the adoption of this standard to have a material impact on its financial statements.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

	2011	2010	January 1, 2010
Cost	**$ 4,129,718**	$ 3,497,575	$ 3,429,560
Accumulated depreciation	**(1,187,422)**	(965,177)	(776,356)
	$ 2,942,296	$ 2,532,398	$ 2,653,204
Rig equipment	**$ 2,432,867**	$ 2,339,208	$ 2,468,572
Rental equipment	**58,589**	40,815	40,053
Other equipment	**55,205**	32,062	34,459
Vehicles	**10,239**	9,374	13,453
Buildings	**28,133**	25,244	27,860
Assets under construction	**336,605**	66,721	49,641
Land	**20,658**	18,974	19,166
	$ 2,942,296	$ 2,532,398	$ 2,653,204

Cost

	Rig Equipment	Rental Equipment	Other Equipment	Vehicles	Buildings	Assets under construction	Land	Total
Balance, January 1, 2010	$3,090,024	$ 87,410	$ 112,937	$27,070	$ 43,312	$ 49,641	$19,166	$3,429,560
Additions	96,588	5,412	4,640	1,038	861	67,362	–	175,901
Disposals	(10,865)	(2,798)	(5,421)	(1,508)	(1,128)	(15)	(104)	(21,839)
Reclassifications	44,653	581	2,763	9	–	(48,006)	–	–
Removal of fully depreciated assets	(1,511)	(699)	(149)	–	–	–	–	(2,359)
Effect of foreign currency exchange differences	(80,376)	(12)	(242)	(531)	(178)	(2,261)	(88)	(83,688)
Balance, December 31, 2010	3,138,513	89,894	114,528	26,078	42,867	66,721	18,974	3,497,575
Business acquisitions	23,650	–	377	–	1,271	–	357	25,655
Additions	119,973	11,617	22,486	4,966	3,848	562,196	1,271	726,357
Disposals	(23,054)	(2,110)	(3,948)	(3,287)	–	–	–	(32,399)
Asset decommissioning	(130,167)	–	–	–	–	–	–	(130,167)
Reclassifications	271,770	13,292	9,546	87	39	(294,734)	–	–
Removal of fully depreciated assets	(1,923)	–	(676)	(60)	–	–	–	(2,659)
Effect of foreign currency exchange differences	42,290	14	250	267	57	2,422	56	45,356
Balance, December 31, 2011	**$3,441,052**	**$ 112,707**	**$ 142,563**	**$28,051**	**$ 48,082**	**$ 336,605**	**$20,658**	**$4,129,718**

Accumulated Depreciation

	Rig Equipment	Rental Equipment	Other Equipment	Vehicles	Buildings	Assets under construction	Land	Total
Balance, January 1, 2010	$ 621,452	$ 47,357	$ 78,478	$13,617	$ 15,452	$ –	$ –	$ 776,356
Depreciation expense	191,432	5,295	9,159	4,515	2,534	–	–	212,935
Disposals	(4,898)	(2,487)	(4,952)	(1,193)	(306)	–	–	(13,836)
Reclassifications	361	(377)	16	–	–	–	–	–
Removal of fully depreciated assets	(1,511)	(699)	(149)	–	–	–	–	(2,359)
Effect of foreign currency exchange differences	(7,531)	(10)	(86)	(235)	(57)	–	–	(7,919)
Balance, December 31, 2010	799,305	49,079	82,466	16,704	17,623	–	–	965,177
Depreciation expense	231,415	5,542	10,073	3,939	2,285	–	–	253,254
Disposals	(12,580)	(1,812)	(3,764)	(2,943)	–	–	–	(21,099)
Asset decommissioning	(15,273)	–	–	–	–	–	–	(15,273)
Reclassifications	(466)	1,148	(682)	–	–	–	–	–
Removal of fully depreciated assets	(1,923)	–	(676)	(60)	–	–	–	(2,659)
Effect of foreign currency exchange differences	7,707	161	(59)	172	41	–	–	8,022
Balance, December 31, 2011	**$1,008,185**	**$ 54,118**	**$ 87,358**	**$17,812**	**$ 19,949**	**$ –**	**$ –**	**$1,187,422**

In 2011 the Corporation incurred a $114.9 million (2010 – $nil) loss on the decommissioning of certain drilling and service rigs. The assets were decommissioned due to the inefficient nature of the asset and the high cost to maintain. The charge was allocated $113.4 million (2010 – $nil) to the Contract Drilling Services segment and $1.5 million (2010 – $nil) to the Completion and Production Services segment.

NOTE 7. INTANGIBLES

	2011	2010	January 1, 2010
Cost	**$ 9,925**	$ 10,157	$ 5,419
Accumulated amortization	**(3,454)**	(3,791)	(2,263)
	$ 6,471	$ 6,366	$ 3,156
Customer relationships	**$ 3,283**	$ 1,624	$ 3,024
Patents and brands	**118**	39	132
Loan commitment fees related to revolving credit facility	**3,070**	4,703	–
	$ 6,471	$ 6,366	$ 3,156

Cost

	Customer relationships	Patents and brands	Loan commitment fees	Total
Balance, January 1, 2010	$ 4,488	$ 931	$ –	$ 5,419
Additions	–	–	4,905	4,905
Effect of foreign currency exchange differences	(167)	–	–	(167)
Balance, December 31, 2010	4,321	931	4,905	10,157
Business acquisitions	3,425	793	–	4,218
Effect of foreign currency exchange differences	556	15	–	571
Removal of fully amortized assets	(3,702)	(1,319)	–	(5,021)
Balance, December 31, 2011	**$ 4,600**	**$ 420**	**$ 4,905**	**$ 9,925**

Accumulated amortization

	Customer relationships	Patents and brands	Loan commitment fees	Total
Balance, January 1, 2010	$ 1,464	$ 799	$ –	$ 2,263
Amortization expense	1,328	93	202	1,623
Effect of foreign currency exchange differences	(95)	–	–	(95)
Balance, December 31, 2010	2,697	892	202	3,791
Amortization expense	1,798	722	1,633	4,153
Effect of foreign currency exchange differences	524	7	–	531
Removal of fully amortized assets	(3,702)	(1,319)	–	(5,021)
Balance, December 31, 2011	**$ 1,317**	**$ 302**	**$ 1,835**	**$ 3,454**

NOTE 8. GOODWILL

Balance, January 1, 2010	$ 284,537
Exchange adjustment	(5)
Balance, December 31, 2010	284,532
Business acquisitions	78,034
Exchange adjustment	1,080
Balance, December 31, 2011	**$ 363,646**

NOTE 9. BANK INDEBTEDNESS

At December 31, 2011 and 2010, Precision had available $25.0 million and US$15.0 million under secured operating facilities, of which no amounts had been drawn. Availability of the $25.0 million facility was reduced by outstanding letters of credit in the amount of $0.5 million (2010 – $0.1 million). The facilities are primarily secured by charges on substantially all present and future property of Precision and its material subsidiaries. Advances under the $25.0 million facility are available at the banks' prime lending rate, U.S. base rate, U.S. Libor plus applicable margin or Banker's Acceptance plus applicable margin, or in combination and under the US$15.0 million facility at the bank's prime lending rate.

NOTE 10. SHARE BASED COMPENSATION PLANS

Liability classified plans

	Deferred Share Units	Long-Term Incentive Plan	Restricted Share Units	Performance Share Units	Share Appreciation Rights	Non-Management Director's DSU	Employee Share Option	Deferred Signing Bonus Plan	Total
Balance, January 1, 2010	$ 1,878	$ 6,128	$ 4,595	$ 2,507	$ 1,547	$ 2,224	$ 2,827	$ 522	$ 22,228
Expensed (recovered) during the period	335	1,761	6,312	6,179	629	206	2,014	(60)	17,376
Reclassification to contributed surplus on conversion to a corporation	–	–	–	–	–	(2,430)	(4,841)	–	(7,271)
Payments	(575)	(4,168)	(2,444)	(31)	–	–	–	(462)	(7,680)
Balance, December 31, 2010	1,638	3,721	8,463	8,655	2,176	–	–	–	24,653
Expensed (recovered) during the period	313	(23)	9,538	16,668	(403)	–	–	–	26,093
Payments	(1,189)	(3,698)	(5,472)	(73)	(80)	–	–	–	(10,512)
Balance, December 31, 2011	**$ 762**	**$ –**	**$ 12,529**	**$ 25,250**	**$ 1,693**	**$ –**	**$ –**	**$ –**	**$ 40,234**
Current	$ 762	$ –	$ 8,591	$ 17,885	$ 1,693	$ –	$ –	$ –	$ 28,931
Long-term	–	–	3,938	7,365	–	–	–	–	11,303
	$ 762	$ –	$ 12,529	$ 25,250	$ 1,693	$ –	$ –	$ –	$ 40,234

(a) Officers and employees

Precision has two cash settled share based incentive plans for officers and other eligible employees. Under the Restricted Share Unit ("RSU") incentive plan shares granted to eligible employees vest annually over a three year term. Vested shares are automatically paid out in cash in the first quarter of the year following vesting at a value determined by the fair market value of the shares as at December 31 of the vesting year. Under the Performance Share Unit ("PSU") incentive plan shares granted to eligible employees vest at the end of a three-year term. Vested shares are automatically paid out in cash in the first quarter following the vested term at a value determined by the fair market value of the shares at December 31 of the vesting year and based on the number of performance shares held multiplied by a performance factor that ranges from zero to two times. The performance factor is based on Precision's share price performance compared to a peer group over the three-year period. For performance shares granted in 2009 and 2010, Precision's Board of Directors has the discretion to reduce the plan payout by half if Precision's average return on capital does not exceed 10% over the three year term.

2010 was the final year of the annual long-term incentive plan ("LTIP") which compensated eligible participants through cash payments at the end of a three year term. The compensation included a retention component that was a lump sum amount determined in equivalent notional share units at the date of commencement in the LTIP. These notional shares vested at the end of a three year term and were automatically paid out in cash in the first quarter of the year following vesting at a value determined by the fair market value of the shares as at December 31 of the vesting year.

Prior to the implementation of the RSU and PSU incentive plans mentioned above, Precision had a Performance Savings Plan. Certain liabilities under this plan continue to exist as eligible participants were able to elect to receive a portion of their annual performance bonus in the form of deferred share units ("DSUs"). These notional share units are redeemable in cash and must be redeemed within 60 days of ceasing to be an employee of Precision or by the end of the second full calendar year after receipt of the DSUs. A summary of the DSUs outstanding under this share based incentive plan is presented below:

Deferred Share Units	Outstanding
Balance, January 1, 2010	245,916
Redeemed on employee resignations and withdrawals	(78,474)
Balance, December 31, 2010	167,442
Redeemed on employee resignations and withdrawals	(95,872)
Balance, December 31, 2011	**71,570**

The Corporation has a U.S. dollar denominated Share Appreciation Rights ("SAR") plan under which eligible participants were granted SAR's that entitle the rights holder to receive cash payments calculated as the excess of the market price over the exercise price per share on the exercise date. The SAR's vest over a period of 5 years and expire 10 years from the date of grant. At December 31, 2011, the intrinsic value of these awards was $61 thousand (2010 – $30 thousand).

Share Appreciation Rights	Outstanding	Range of Exercise Price (US $)	Weighted Average Exercise Price (US $)	Exercisable
Outstanding at January 1, 2010	797,540	9.26 – 17.92	14.79	607,168
Forfeited	(51,925)	15.22 – 17.38	14.81	
Outstanding at December 31, 2010	745,615	9.26 – 17.92	14.79	707,327
Exercised	(25,163)	9.26 – 15.79	12.83	
Forfeited	(14,764)	15.22 – 17.38	16.27	
Outstanding at December 31, 2011	**705,688**	**$ 9.26 – 17.92**	**$ 14.83**	**705,688**

	Total SAR's Outstanding and Exercisable		
Range of Exercise Prices (US $):	Number	Weighted Average Exercise Price (US $)	Weighted Average Remaining Contractual Life (Years)
$ 9.26 – 11.99	60,624	$ 9.27	2.23
12.00 – 14.99	115,478	13.26	3.10
15.00 – 17.92	529,586	15.81	5.44
$ 9.26 – 17.92	705,688	$ 14.83	4.78

(b) Executive

In 2007 Precision instituted a Deferred Signing Bonus Share Plan for its Chief Executive Officer. Under the plan 178,336 notional DSUs were granted on September 1, 2007. The shares were redeemable one-third annually beginning September 1, 2008 and were settled for cash based on the common share trading price on redemption. Prior to the conversion to a corporation, the number of notional DSUs were adjusted for each cash distribution to unitholders by issuing additional notional DSUs based on the weighted average trading price on the Toronto Stock Exchange for the five days immediately following the ex-distribution date. The final tranche from this plan was redeemed during 2010.

Equity settled plans

(c) Non-management directors

Precision has a deferred share unit plan for non-management directors. Under the plan fully vested deferred share units are granted quarterly based upon an election by the non-management director to receive all or a portion of their compensation in deferred share units. These deferred share units are redeemable into an equal number of common shares any time after the director's retirement. A summary of this share based incentive plan is presented below:

Deferred Shares Units	Outstanding
Balance, January 1, 2010	290,732
Granted	131,571
Redeemed	(28,586)
Balance, December 31, 2010	393,717
Granted	70,974
Redeemed	(47,196)
Balance, December 31, 2011	**417,495**

For the year ended December 31, 2011 the Corporation expensed $0.8 million as share based compensation, with a corresponding increase in contributed surplus. As discussed in Note 4(c), prior to the conversion to a corporation, this plan was treated as a cash settled award and for the year ended December 31, 2010 Precision expensed $0.4 million as share based compensation with a corresponding increase to accounts payable and accrued liabilities. Upon conversion to a corporation on June 1, 2010, $2.4 million was transferred to contributed surplus and for the year ended December 31, 2010 Precision expensed an additional $0.8 million with a corresponding increase in contributed surplus.

(d) Option plan

The Corporation has a share option plan under which a combined total of 10,303,253 options to purchase shares are reserved to be granted to employees. Of the amount reserved 6,161,324 options have been granted. Under this plan, the exercise price of each option equals the fair market of the option at the date of grant determined by the weighted average trading price for the five days preceding the grant. The options are denominated in either Canadian or U.S. dollars and vest over a period of three years from the date of grant as employees render continuous service to the Corporation and have a term of seven years.

A summary of the status of the equity incentive plan is presented below:

Canadian share options	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Outstanding as at January 1, 2010	1,189,625	$ 5.22 – 7.26	$ 5.85	–
Granted	1,236,310	7.33 – 8.59	8.56	
Exercised	(5,666)	5.85 – 5.85	5.85	
Forfeitures	(78,500)	5.85 – 8.59	7.12	
Outstanding as at December 31, 2010	2,341,769	5.22 – 8.59	7.24	386,013
Granted	1,241,050	10.44 – 14.50	10.66	
Exercised	(141,240)	5.85 – 8.59	6.81	
Forfeitures	(174,008)	5.85 – 14.50	9.17	
Outstanding as at December 31, 2011	**3,267,571**	**$ 5.22 – 14.50**	**$ 8.45**	**1,008,305**

U.S. share options	Options Outstanding	Range of Exercise Price (US $)	Weighted Average Exercise Price (US $)	Options Exercisable
Outstanding as at January 1, 2010	598,075	$ 4.95 – 7.02	$ 4.97	–
Granted	882,445	7.12 – 8.06	7.82	
Exercised	(17,666)	4.95 – 4.95	4.95	
Forfeitures	(81,500)	4.95 – 8.06	5.37	
Outstanding as at December 31, 2010	1,381,354	4.95 – 8.06	6.77	158,177
Granted	872,319	10.55 – 15.21	10.95	
Exercised	(206,685)	4.95 – 8.06	6.35	
Forfeitures	(160,436)	4.95 – 10.55	8.36	
Outstanding as at December 31, 2011	**1,886,552**	**$ 4.95 – 15.21**	**$ 8.61**	**396,188**

The weighted average share price at the date of exercise for share options exercised in 2011 was $13.70 (2010 – $8.69) for the Canadian share options and US$14.37 (2010 – US$8.68) for the U.S. share options.

The range of exercise prices for options outstanding at December 31, 2011 are as follows:

Canadian share options	Total Options Outstanding			Exercisable Options	
Range of Exercise Prices:	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Exercise Price
$ 5.22 – 6.99	1,019,709	$ 5.85	4.35	659,257	$ 5.85
7.00 – 8.99	1,094,412	8.56	5.13	349,048	8.56
9.00 – 14.50	1,153,450	10.65	6.14	–	–
$ 5.22 – 14.50	3,267,571	$ 8.45	5.24	1,008,305	$ 6.79

U.S. share options	Total Options Outstanding			Exercisable Options	
Range of Exercise Prices (US $):	Number	Weighted Average Exercise Price (US $)	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Exercise Price (US $)
$ 4.95 – 5.99	366,693	$ 4.95	4.35	216,501	$ 4.95
6.00 – 8.99	719,090	7.84	5.13	179,667	7.94
9.00 – 15.21	800,769	10.99	6.15	–	–
$ 4.95 – 15.21	1,886,552	$ 8.61	5.45	396,168	$ 6.31

The per option weighted average fair value of the share options granted during 2011 was $4.94 (2010 – $3.78) estimated on the grant date using the Black-Scholes option pricing model with the following assumption: average risk-free interest rate 2% (2010 – 2%), average expected life of four years (2010 – four years), expected forfeiture rate of 5% (2010 – 5%) and expected volatility of 59% (2010 – 59%). Included in net earnings for the year ended December 31, 2011 is an expense of $7.9 million (2010 – $5.3 million).

NOTE 11. PROVISIONS AND OTHER

	Workers' compensation	Exchangeable LP units	Warrants	Total
Balance January 1, 2010	$ 24,654	$ 909	$ 79,205	$ 104,768
Expensed (recovered) during the year	9,657	(18)	–	9,639
Payment of deductibles and uninsured claims	(9,326)	–	–	(9,326)
Reclassification to shareholders' capital upon conversion to a corporation	–	(891)	(79,205)	(80,096)
Effects of foreign currency exchange differences	(1,244)	–	–	(1,244)
Balance December 31, 2010	23,741	–	–	23,741
Expensed (recovered) during the year	7,894	–	–	7,894
Payment of deductibles and uninsured claims	(8,179)	–	–	(8,179)
Effects of foreign currency exchange differences	528	–	–	528
Balance December 31, 2011	**$ 23,984**	**$ –**	**$ –**	**$ 23,984**

	December 31, 2011	December 31, 2010	January 1, 2010
Current	**$ 7,863**	$ 5,690	$ 4,563
Long-term	**16,121**	18,051	100,205
	$ 23,984	$ 23,741	$ 104,768

Precision maintains a provision for the deductible and uninsured portions of workers' compensation and general liability claims. The amount accrued for the provision for losses incurred varies depending on the number and nature of the claims outstanding at the balance sheet dates. In addition, the accrual includes management's estimate of the future cost to settle each claim such as future changes in the severity of the claim and increases in medical costs. Precision uses third parties to assist in developing the estimate of the ultimate costs to settle each claim, which is based upon historical experience associated with the type of each claim and specific information related to each claim. The specific circumstances of each claim may change over time prior to settlement and as a result, the estimates made as of the balance sheet dates may change.

NOTE 12. LONG-TERM DEBT

	2011	2010
Secured revolving credit facility	**$ –**	$ –
Unsecured senior notes:		
6.625% senior notes due 2020 (US$650.0 million)	**661,050**	646,490
6.5% senior notes due 2021 (US$400.0 million)	**406,800**	–
6.5% senior notes due 2019	**200,000**	–
10% senior notes	**–**	175,000
	1,267,850	821,490
Less net unamortized debt issue costs	**(28,234)**	(16,996)
	$ 1,239,616	$ 804,494

(a) Secured revolving credit facility:
The secured revolving credit facility provides Precision with senior secured financing for general corporate purposes, including for acquisitions, of up to US$550 million with a provision for an increase in the facility of up to an additional US$100 million. The secured revolving credit facility is secured by charges on substantially all of Precision's present and future assets and the present and future assets of its material U.S. and Canadian subsidiaries and, if necessary, in order to adhere to covenants under the revolving credit facility, on certain assets of certain subsidiaries organized in a jurisdiction outside of Canada or the U.S. The secured revolving credit facility requires that Precision comply with certain financial covenants including leverage ratios of consolidated senior debt to earnings before interest, taxes, depreciation and amortization as defined in the agreement ("EBITDA") of less than 3:1 and consolidated total debt to EBITDA of less than 4:1 for the most recent four consecutive fiscal quarters; and a interest coverage ratio of greater than 2.75:1 for the most recent four consecutive fiscal quarters. As well the revolving credit facility contains certain covenants that place restrictions on Precision's ability to incur or assume additional indebtedness; dispose of assets; make or pay dividends, share redemptions or other distributions; change its primary business; incur liens on assets; engage in transactions with affiliates; enter into mergers, consolidations or amalgamations; and enter into speculative swap agreements. At December 31, 2011 Precision complied with the covenants of the revolving credit facility.

The revolving credit facility has a term of four years, with an annual option on Precision's part to request that the lenders extend, at their discretion, the facility to a new maturity date not to exceed four years from the date of the extension request. The current maturity date of the revolving credit facility is November 17, 2015.

Under the revolving credit facility amounts can be drawn in U.S. dollars and/or Canadian dollars and was undrawn as at December 31, 2011 and 2010. Up to US$200 million of the revolving credit facility is available for letters of credit denominated in United States and/or Canadian dollars and as at December 31, 2011 outstanding letters of credit amounted to US$22.6 million (2010 – US$23.4 million).

The interest rate on loans that are denominated in U.S. dollars is, at the option of Precision, either a margin over a U.S. base rate or a margin over LIBOR. The interest rate on loans denominated in Canadian dollars is, at the option of Precision, either a margin over the Canadian prime rate or a margin over the bankers' acceptance rate; such margins will be based on the then applicable ratio of consolidated total debt to EBITDA.

(b) Unsecured senior notes:
Precision has outstanding the following unsecured senior notes:

- US$650.0 million of 6.625% Senior Notes due 2020. These notes bear interest at a fixed rate of 6.625% per annum, and mature on November 15, 2020. Interest is payable semi-annually on May 15 and November 15 of each year, commencing on May 15, 2011.
- $200.0 million of 6.5% Senior Notes due 2019. These notes bear interest at a fixed rate of 6.5% per annum, and mature on March 15, 2019. Interest is payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2011.
- US$400.0 million of 6.5% Senior Notes due 2021. These notes bear interest at a fixed rate of 6.5% per annum, and mature on December 15, 2021. Interest is payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2011.

The 6.625% Senior Notes due 2020 and the 6.5% Senior Notes due 2019 are unsecured, ranking equally with existing and future senior unsecured indebtedness, and have been guaranteed by current and future U.S. and Canadian subsidiaries that guaranteed the revolving credit facility. These notes contain certain covenants that limit Precision's ability and the ability of certain subsidiaries to, incur additional indebtedness and issue preferred stock; create liens; make restricted payments; create or permit to exist restrictions on the ability of Precision or certain subsidiaries to make certain payments and distributions; engage in amalgamations, mergers or consolidations; make certain dispositions and transfers of assets; and engage in transactions with affiliates. If the notes receive an investment grade rating by Standard & Poor's and Moody's Investors Service and Precision and its subsidiaries are not in default under the indenture governing the notes, then Precision will not be required to comply with particular covenants contained in the indenture.

The 6.5% Senior Notes due 2021 are unsecured, ranking equally with existing and future senior unsecured indebtedness, and have been guaranteed by current and future U.S. and Canadian subsidiaries that guaranteed the revolving credit facility. These notes contain certain covenants that limit Precision's ability and the ability of certain subsidiaries to, incur additional indebtedness and issue preferred stock; create liens; make restricted payments; create or permit to exist restrictions on the ability of Precision or certain subsidiaries to make certain payments and distributions; engage in amalgamations, mergers or consolidations; make certain dispositions and transfers of assets; and engage in transactions with affiliates. If the notes receive an investment grade rating by Standard & Poor's or Moody's Investors Service and Precision and its subsidiaries are not in default under the indenture governing the notes, then Precision will not be required to comply with particular covenants contained in the indenture.

Precision may redeem, prior to November 15, 2013, up to 35% of the 6.625% Senior Notes due 2020 with the net proceeds of certain equity offerings at a redemption price equal to 106.625% of their principal amount, plus accrued interest. Prior to December 15, 2016, Precision may redeem the notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the December 15, 2016 redemption price plus required interest payments through December 15, 2016 (calculated using the United States Treasury rate plus 50 basis points) over the principal amount of the note. As well, Precision may redeem the notes in whole or in part at any time on or after November 15, 2015 and before November 15, 2018, at redemption prices ranging between 103.313% and 101.104% of their principal amount plus accrued interest. Anytime on or after November 15, 2018 the notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

Precision may redeem, prior to March 15, 2014, up to 35% of the 6.5% Senior Notes due 2019 with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of the principal amount plus accrued interest. Prior to March 15, 2015, Precision may redeem the notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the March 15, 2015 redemption price plus required interest payments through March 15, 2015 (calculated using the Government of Canada rate plus 100 basis points) over the principal amount of the note. As well, Precision may redeem the notes in whole or in part at any time on or after March 15, 2015 and before March 15, 2017, at redemption prices ranging between 103.250% and 101.625% of their principal amount plus accrued interest. Anytime on or after March 15, 2017 the notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

Precision may redeem, prior to December 15, 2014, up to 35% of the 6.5% Senior Notes due 2021 with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of the principal amount plus accrued interest. Prior to December 15, 2016, Precision may redeem the notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the December 15, 2016 redemption price plus required interest payments through December 15, 2016 (calculated using the United States Treasury rate plus 50 basis points) over the principal amount of the note. As well, Precision may redeem the notes in whole or in part at any time on or after December 15, 2016 and before December 15, 2019, at redemption prices ranging between 103.250% and 101.083% of their principal amount plus accrued interest. Anytime on or after December 15, 2019 the notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

In March 2011, Precision repaid the $175 million 10% senior unsecured notes. The total repayment of approximately $204 million included the $175 million in principal, accrued interest and a make-whole premium. The make-whole premium of $27 million was recorded in financing charges.

At December 31, 2011 no mandatory principal repayments are required in the next five years.

(c) Guarantor disclosures:
The Corporation issued senior unsecured notes that were fully and unconditionally guaranteed on a joint and several basis by certain current and future U.S. and Canadian subsidiaries. The Corporation has not presented supplemental financial information concerning the guarantor and non-guarantor subsidiaries for the year ended December 31, 2011 and 2010 as the assets and operations of the non-guarantor companies are not significant. In addition, the parent company has no significant independent assets, except for cash of $440.8 million (2010 – $229.2 million), or significant independent operations except for general and administrative costs of $45.5 million (2010 – $40.5 million) and financing charges of $115.3 million (2010 – $211.3 million).

NOTE 13. INCOME TAXES

The provision for income taxes differs from that which would be expected by applying statutory Canadian income tax rates. A reconciliation of the difference at December 31 is as follows:

		2011		2010
Earnings before income taxes	**$**	**240,784**	$	26,190
Federal and provincial statutory rates		**27%**		28%
Tax at statutory rates	**$**	**65,012**	$	7,333
Adjusted for the effect of:				
Non-deductible expenses		**7,857**		15,790
Non-taxable capital gains		**(1,245)**		(2,601)
Income taxed at lower rates		**(32,260)**		(43,557)
Taxes related to prior years		**10,986**		–
Other		**(3,043)**		5,690
Income tax expense (recovery)	**$**	**47,307**	$	(17,345)

Taxes related to prior years of $11.0 million, (2010 – $nil) includes the Canada Revenue Agency and provincial income tax settlement of prior years income taxes totaling $34.8 million offset by a reduction in prior period unrecognized tax benefits (including interest and penalties) of $23.8 million.

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

		2011		2010		January 1, 2010
Deferred income tax liability:						
Property, plant and equipment and intangibles	**$**	**735,815**	$	676,803	$	665,800
Partnership deferrals		**91,319**		55,819		37,674
Other		**5,704**		2,094		14,296
		832,838		734,716		717,770
Deferred income tax assets:						
Losses (expire from time to time up to 2031)		**221,982**		136,056		84,365
Debt issue costs		**2,568**		6,802		3,769
Long-term incentive plan		**13,026**		8,846		5,164
Other		**7,472**		4,773		4,013
Net deferred income tax liability	**$**	**587,790**	$	578,239	$	620,459

Included in the net deferred tax liability is $324.9 million (2010 – $ 353.2 million) of tax effected temporary differences related to the Corporations' United States operations.

The movement in temporary differences is as follows:

	Property, plant and equipment and intangibles	Partnership deferrals	Other deferred income tax liabilities	Losses	Debt issue costs	Long-term incentive plan	Other deferred income tax assets	Net deferred income tax liability
Balance January 1, 2010	$ 665,800	$ 37,674	$ 14,296	$ (84,365)	$ (3,769)	$ (5,164)	$ (4,013)	$ 620,459
Recognized in net earnings	35,756	18,145	(14,350)	(57,094)	(3,033)	(3,722)	(681)	(24,979)
Recognized in other comprehensive income	–	–	2,148	–	–	–	–	2,148
Effect of foreign currency exchange differences	(24,753)	–	–	5,403	–	40	(79)	(19,389)
Balance December 31, 2010	676,803	55,819	2,094	(136,056)	(6,802)	(8,846)	(4,773)	578,239
Recognized in net earnings	45,686	35,500	5,712	(80,896)	4,234	(4,011)	(2,697)	3,528
Recognized in other comprehensive income	–	–	(2,148)	–	–	–	–	(2,148)
Acquired in business acquisitions *(Note 21)*	844	–	–	–	–	–	–	844
Effect of foreign currency exchange differences	12,482	–	46	(5,030)	–	(169)	(2)	7,327
Balance December 31, 2011	**$ 735,815**	**$ 91,319**	**$ 5,704**	**$(221,982)**	**$ (2,568)**	**$ (13,026)**	**$ (7,472)**	**$ 587,790**

On December 31, 2011 Precision had $34.3 million (2010 – $54.8 million) of unrecognized tax benefits that, if recognized, would have a favourable impact on Precision's effective income tax rate in future periods. Precision classifies interest accrued on unrecognized tax benefits and income tax penalties as income tax expense. Included in the unrecognized tax benefit as at December 31, 2011 is interest and penalties of $8.6 million (2010 – $10.3 million).

Reconciliation of unrecognized tax benefits

Year ended December 31,	**2011**	2010
Unrecognized tax benefits, beginning of year	**$ 54,825**	$ 48,652
Additions:		
Prior year's tax positions	**2,133**	6,825
Reductions:		
Prior year's tax positions	**(22,658)**	(652)
Unrecognized tax benefits, end of year	**$ 34,300**	$ 54,825

It is anticipated that approximately $1.2 million (2010 – $24.4 million) of an unrecognized tax position that relates to prior year activities will be realized during the next 12 months. Subject to the results of audit examinations by taxing authorities and/or legislative changes by taxing jurisdictions, Precision does not anticipate further adjustments of unrecognized tax positions during the next 12 months that would have a material impact on the financial statements of Precision.

NOTE 14. SHAREHOLDERS' CAPITAL

(a) Authorized – unlimited number of voting common shares
– unlimited number of preferred shares, issuable in series, limited to an amount equal to one half of the issued and outstanding common shares

(b) Issued

Common shares	Number	Amount
Balance, May 31, 2010	–	$ –
Issued for Trust units	275,544,524	2,164,114
Issued for LP units	118,820	891
Reclassification of warrants from long-term liabilities	–	79,205
Options exercised – cash consideration	23,332	122
– reclassification from contributed surplus	–	85
Balance, December 31, 2010	275,686,676	$ 2,244,417
Options exercised – cash consideration	347,925	2,238
– reclassification from contributed surplus	–	1,178
Issued on redemption of non-management directors DSU's	47,196	384
Balance, December 31, 2011	**276,081,797**	**$ 2,248,217**

The following provides a continuity of Trust units up to the Conversion on June 1, 2010.

Trust units	Number	Amount
Balance, January 1, 2010	275,516,778	$ 2,163,919
Issued on redemption of non-management directors DSU's	28,586	204
Cancellation of units owned by dissenting shareholders	(840)	(9)
Balance, May 31, 2010	**275,544,524**	**$ 2,164,114**

(c) Warrants

On April 22, 2009 the Corporation issued 15,000,000 purchase warrants pursuant to a private placement. Each warrant is exercisable into common shares of the Corporation at a price of $3.22 per share for a period of five years from the date of issue. No warrants have been exercised as at December 31, 2011.

NOTE 15. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Unrealized foreign currency translation gains (losses)	Foreign exchange gain (loss) on net investment hedge	Accumulated other comprehensive loss
Balance, January 1, 2010	$ –	$ –	$ –
Other comprehensive loss	(61,037)	14,817	(46,220)
Balance, December 31, 2010	(61,037)	14,817	(46,220)
Other comprehensive loss	33,050	(37,692)	(4,642)
Balance, December 31, 2011	**$ (27,987)**	**$ (22,875)**	**$ (50,862)**

NOTE 16. FINANCE CHARGES

	2011	2010
Interest:		
Long-term debt	**$ 69,959**	$ 67,570
Tax settlement and reassessment	**15,372**	–
Other	**164**	97
Income	**(1,683)**	(803)
Amortization of debt issue costs	**3,444**	27,097
Accelerated amortization of debt issue costs from voluntary debt repayments	**–**	1,590
Loss on settlement of debt facilities	**26,942**	115,776
Debt amendment fees	**1,134**	–
Finance charges	**$ 115,332**	$ 211,327

NOTE 17. EMPLOYEE BENEFIT PLANS

The Corporation has a defined contribution pension plan covering a significant number of its employees. Under this plan, the Corporation matches individual contributions up to 5% of the employee's eligible compensation. Total expense under the defined contribution plan in 2011 was $8.6 million (2010 – $7.2 million).

NOTE 18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel
The remuneration of key management personnel is as follows:

	2011	2010
Salaries and other benefits	**$ 6,065**	$ 4,356
Equity settled share based compensation	**3,297**	2,192
Cash settled share based compensation	**7,106**	4,260
	$ 16,468	$ 10,808

Key management personnel are comprised of the directors and executive officers of the Corporation. Certain executive officers have entered into employment agreements with Precision which provide termination benefits of up to 24 months base salary plus up to two times targeted incentive compensation upon dismissal without cause.

NOTE 19. COMMITMENTS

(a) Operating lease commitments
The Corporation has commitments under various operating lease agreements, primarily for vehicles and office space. Terms of the office leases run for a period of one to ten years while the vehicle leases are typically for terms of between three and four years. Expected non-cancellable operating lease payments are as follows:

	2011	2010	January 1, 2010
Less than one year	**$ 12,874**	$ 13,187	$ 11,034
Between one and five years	**39,555**	34,638	15,069
Later than five years	**28,528**	30,415	1,562
	$ 80,957	$ 78,240	$ 27,665

One of the leased properties was sublet by the Corporation. The lease and sublease expired in 2011.

The following amounts were recognized as expenses in respect of operating leases in the consolidated statement of earnings:

	2011	2010
Operating leases	**$ 13,789**	$ 11,490
Sub-lease recoveries	**(814)**	(1,105)
	$ 12,975	$ 10,385

(b) Capital commitments

At December 31, 2011 the Corporation has commitments to purchase property, plant and equipment totaling $195.0 million (2010 – US$16.5 million). Payments for these commitments are expected to be made in 2012.

NOTE 20. PER SHARE AMOUNTS

The following tables reconcile the net earnings and weighted average shares outstanding used in computing basic and diluted earnings per share:

	2011	2010
Net earnings – basic and diluted	**$ 193,477**	$ 43,535

(Stated in thousands)	2011	2010
Weighted average shares outstanding – basic	**275,899**	275,655
Effect of share warrants	**11,106**	8,787
Effect of stock options and other equity compensation plans	**1,711**	619
Weighted average shares outstanding – diluted	**288,716**	285,061

NOTE 21. BUSINESS ACQUISITIONS

On March 29, 2011 Precision acquired all the issued and outstanding shares of Drake Directional Drilling, LLC and Drake MWD Service, LLC (collectively “Drake”). These companies provide directional drilling services in Texas, Louisiana, Oklahoma and Colorado and have been included in the Contract Drilling Services segment.

On September 9, 2011 Precision acquired all the issued and outstanding shares of Axis Energy Services Holdings Inc. (“Axis”). Axis provides directional drilling and MWD (measurement while drilling) services, primarily in Western Canada and has been included in the Contract Drilling Services segment.

In conjunction with the Axis acquisition, the purchase price will be adjusted to the extent that earnings before finance charges, foreign exchange, income taxes and depreciation and amortization during the period from acquisition to December 31, 2011 and working capital at December 31, 2011 for the acquired entities is above or below a predetermined amount. As at the date of the acquisition, Precision estimated the amount of this additional consideration to be $20.4 million and recorded the contingent consideration in accounts payable and accrued liabilities. As at December 31, 2011 Precision reduced the estimated contingent liability to $18.1 million and recognized a $3.8 million recovery in the statement of earnings and a $1.5 million increase to goodwill as a result of working capital adjustments.

The details of the acquisitions are as follows:

	Drake	Axis	Total
Net assets at assigned values:			
Working capital	$ 3,292[1]	$ 6,363[2]	$ 9,655
Property, plant and equipment	5,513	20,142	25,655
Intangible assets	1,460	2,759	4,219
Goodwill (not deductible)	25,521	52,514	78,035
Deferred income taxes	–	(844)	(844)
	$ 35,786	$ 80,934	$ 116,720
Consideration:			
Cash	$ 35,786	$ 59,034	$ 94,820
Contingent consideration	–	21,900	21,900
	$ 35,786	$ 80,934	$ 116,720

(1) Working capital includes cash of $2,609
(2) Working capital includes bank overdraft of $675

NOTE 22. SEGMENTED INFORMATION

To align with the management of the operating divisions, Precision now considers the camp and catering division to be within the Completion and Production Services segment. In addition, Precision views its corporate segment as a support function that provides assistance to more than one segment and commencing in 2011 has included United States based corporate costs, previously included in Contract Drilling Services, in the Corporate and Other segment. Prior period amounts have been restated to reflect these changes. The Corporation operates primarily in Canada and the United States, in two industry segments; Contract Drilling Services and Completion and Production Services. Contract Drilling Services includes drilling rigs, directional drilling, procurement and distribution of oilfield supplies, and manufacture, sale and repair of drilling equipment. Completion and Production Services includes service rigs, snubbing units, oilfield equipment rental, camp and catering services, and wastewater treatment units.

2011	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	**$ 1,632,037**	**$ 330,225**	**$ –**	**$ (11,235)**	**$ 1,951,027**
Operating earnings	**332,829**	**77,127**	**(81,268)**	**–**	**328,688**
Depreciation and amortization	**219,194**	**25,598**	**6,691**	**–**	**251,483**
Loss on asset decommissioning	**113,366**	**1,527**	**–**	**–**	**114,893**
Total assets	**3,380,843**	**473,811**	**573,220**	**–**	**4,427,874**
Goodwill	**251,507**	**112,139**	**–**	**–**	**363,646**
Capital expenditures*	**637,060**	**76,922**	**12,375**	**–**	**726,357**

* Excludes business acquisitions

2010	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	$ 1,186,007	$ 255,827	$ –	$ (12,181)	$ 1,429,653
Operating earnings	256,651	42,315	(74,161)	–	224,805
Depreciation and amortization	177,516	24,128	8,459	–	210,103
Loss on asset decommissioning	–	–	–	–	–
Total assets	2,796,665	417,040	350,835	–	3,564,540
Goodwill	172,393	112,139	–	–	284,532
Capital expenditures	158,274	12,435	5,192	–	175,901

The Corporation's operations are carried on in the following geographic locations:

2011	**Canada**	**United States**	**International**	**Inter-segment Eliminations**	**Total**
Revenue	**$ 1,071,526**	**$ 866,776**	**$ 22,994**	**$ (10,269)**	**$ 1,951,027**
Total assets	**2,252,084**	**2,027,676**	**148,114**	**–**	**4,427,874**

2010	Canada	United States	International	Inter-segment Eliminations	Total
Revenue	$ 772,332	$ 634,885	$ 27,239	$ (4,803)	$ 1,429,653
Total assets	1,720,785	1,789,441	54,314	–	3,564,540

NOTE 23. FINANCIAL INSTRUMENTS

Financial Risk Management

The Board of Directors is responsible for identifying the principal risks of Precision's business and for ensuring the implementation of systems to manage these risks. With the assistance of senior management, who report to the Board of Directors on the risks of Precision's business, the Board of Directors considers such risks and discusses the management of such risks on a regular basis.

Precision has exposure to the following risks from its use of financial instruments:

(a) Credit risk

Accounts receivable includes balances from a large number of customers primarily operating in the oil and gas industry. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. In some instances the Corporation will take additional measures to reduce credit risk including obtaining letters of credit and prepayments from customers. When indicators of credit problems appear the Corporation takes appropriate steps to reduce its exposure including negotiating with the customer, filing liens and entering into litigation. The Corporation views the credit risks on these amounts as normal for the industry. Precision's most significant customer accounted for $43.8 million of the trade receivables amount at December 31, 2011 (2010 – $28.3 million; January 1, 2010 – $20.8 million).

The movement in the allowance for doubtful accounts during the year was as follows:

	2011	2010
Balance at January 1	**$ 12,848**	$ 16,299
Impairment loss recognized	**915**	1,132
Amounts written off as uncollectible	**(418)**	(4,101)
Impairment loss reversed	**(1,328)**	(61)
Effect of movement in exchange rates	**162**	(421)
Balance at December 31	**$ 12,179**	$ 12,848

The ageing of trade receivables at December 31 was:

	2011		2010		January 1, 2010	
	Gross	**Provision for impairment**	Gross	Provision for impairment	Gross	Provision for impairment
Not past due	**$ 235,461**	**$ –**	$ 156,668	$ –	$ 105,442	$ –
Past due 0-30 days	**97,200**	**–**	84,485	–	55,012	–
Past due 31-120 days	**35,866**	**305**	15,853	2,722	22,960	–
Past due more than 120 days	**11,874**	**11,874**	10,126	10,126	18,029	16,299
	$ 380,401	**$ 12,179**	$ 267,132	$ 12,848	$ 201,443	$ 16,299

(b) Interest rate risk

As at December 31, 2011 and 2010, all of Precision's long-term debt bears fixed interest rates. As a result Precision is not exposed to significant fluctuations in interest expense as a result of changes in interest rates based on the debt outstanding at the end of the year.

(c) Foreign currency risk

The Corporation is exposed to foreign currency fluctuations in relation to the working capital and long-term debt of its United States operations and certain long-term debt facilities of its Canadian operations. The Corporation has no significant exposures to foreign currencies other than the U.S. dollar. The Corporation monitors its foreign currency exposure and attempts to minimize the impact by aligning appropriate levels of U.S. denominated debt with cash flows from U.S. based operations.

The following financial instruments were denominated in U.S. dollars:

	2011		2010	
	Canadian Operations[1]	**U.S. Operations**	Canadian Operations[1]	U.S. Operations
Cash	**$ 297,553**	**$ 37,385**	$ 144,094	$ 41,887
Accounts receivable	**50**	**224,275**	189	177,044
Accounts payable and accrued liabilities	**(16,969)**	**(205,143)**	(6,048)	(109,804)
Long-term liabilities, excluding long-term incentive plans	**–**	**(15,851)**	–	(18,149)
Net foreign currency exposure	**$ 280,634**	**$ 40,666**	$ 138,235	$ 90,978
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on net earnings	**$ 2,806**	**$ –**	$ 1,382	$ –
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on comprehensive income	**$ –**	**$ 407**	$ –	$ 910

(1) excludes US$1,050 million (2010 – US$650 million) of long-term debt that has been designated as a hedge of the Corporation's net investment in certain foreign operations.

(d) Liquidity risk

Liquidity risk is the exposure of the Corporation to the risk of not being able to meet its financial obligations as they become due. The Corporation manages liquidity risk by monitoring and reviewing actual and forecasted cash flows to ensure there are available cash resources to meet these needs. The following are the contractual maturities of the Corporation's financial liabilities as at December 31, 2011:

(Stated in thousands)	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt	$ –	$ –	$ –	$ –	$ –	$ 1,267,850	$ 1,267,850
Interest on long-term debt [1]	83,237	83,236	83,237	83,236	83,237	329,520	745,703
Commitments	207,881	12,374	10,615	8,590	7,976	28,528	275,964
Total	$ 291,118	$ 95,610	$ 93,852	$ 91,826	$ 91,213	$ 1,625,898	$ 2,289,517

(1) interest has been calculated based upon debt balances, interest rates and foreign exchange rates in effect as at December 31, 2011 and excludes amortization of long-term debt issue costs.

Fair values

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of the unsecured senior notes at December 31, 2011 was approximately $1,290 million (2010 -$846 million).

Financial assets and liabilities recorded or disclosed at fair value in the consolidated balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels are based on the amount of subjectivity associated with the inputs in the fair determination and are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The estimated fair value of unsecured senior notes is based on level II inputs. The fair value is estimated considering the risk free interest rates on government debt instruments of similar maturities, adjusted for estimated credit risk, industry risk and market risk premiums.

NOTE 24. CAPITAL MANAGEMENT

The Corporation's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Corporation seeks to maintain a balance between the level of long-term debt and shareholders' equity to ensure access to capital markets to fund growth and working capital given the cyclical nature of the oilfield services sector. The Corporation strives to maintain a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2011 and 2010 these ratios were as follows:

	2011	2010
Long-term debt	**$ 1,239,616**	$ 804,494
Shareholders' equity	**2,132,591**	1,932,826
Total capitalization	**$ 3,372,207**	$ 2,737,320
Long-term debt to long-term debt plus equity ratio	**0.37**	0.29

During 2011, Precision pursued market opportunities to put long-term debt financing in place. The Company issued US$400 million aggregate principal amount of 6.5% senior unsecured notes due 2021 and $200 million aggregate principal amount of 6.5% senior unsecured notes due 2019 in private placements and retired the $175 million 10% senior unsecured notes.

As at December 31, 2011 liquidity remains sufficient as Precision has $467.5 million (2010 – $256.8 million) in cash and access to a US$550.0 million senior secured revolving credit facility (2010 – US$550 million) and $40.3 million (2010 – $39.9 million) secured operating facilities. The US$550 million Secured Revolver remains undrawn except for US$22.6 million (2010 – US$23.4 million) in outstanding letters of credit. Availability of the $25 million secured operating facility was reduced by $0.5 million (2010 – $0.1 million) of outstanding letters of credit and, and there was no amount drawn on the US$15 million secured operating facility.

NOTE 25. SUPPLEMENTAL INFORMATION

Components of change in non-cash working capital balances:

	2011	2010
Accounts receivable	**$ (137,620)**	$ (142,038)
Inventory	**(1,712)**	4,028
Accounts payable and accrued liabilities	**166,768**	86,626
	$ 27,436	$ (51,384)
Pertaining to:		
Operations	**$ (59,616)**	$ (97,901)
Investments	**$ 87,798**	$ 45,532
Financing	**$ (746)**	$ 985

The components of accounts receivable are as follows:

	2011	2010	January 1, 2010
Trade	**$ 368,222**	$ 254,284	$ 185,144
Accrued trade	**161,581**	123,170	67,918
Prepaids and other	**46,440**	37,447	30,837
	$ 576,243	$ 414,901	$ 283,899

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

	2011	2010	January 1, 2010
Accounts payable	**$ 255,194**	$ 127,708	$ 53,546
Accrued liabilities:			
Payroll	**85,613**	46,022	42,524
Other	**95,860**	44,069	38,904
	$ 436,667	$ 217,799	$ 134,974

Precision presents expenses in the consolidated statement of earnings by function with the exception of depreciation and amortization and loss on asset decommissioning which are presented by nature. Operating expense and general and administrative expense would include $359.7 million and $6.7 million (2010 – $201.6 million and $8.5 million) respectively of depreciation and amortization and loss on asset decommissioning if the statements of earnings were presented purely by function. The following table presents operating and general and administrative expenses by nature:

	2011	2010
Wages, salaries and benefits	**$ 736,365**	$ 593,460
Purchased materials, supplies and services	**484,813**	379,628
Share-based compensation	**34,785**	21,657
	$ 1,255,963	$ 994,745
Allocated to:		
Operating expense	**$ 1,131,022**	$ 886,751
General and administrative	**124,941**	107,994
	$ 1,255,963	$ 994,745

NOTE 26. CONTINGENCIES AND GUARANTEES

The business and operations of the Corporation are complex and the Corporation has executed a number of significant financings, business combinations, acquisitions and dispositions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations. The Corporation's management believes that the provision for income tax is adequate and in accordance with IFRS and applicable legislation and regulations. However, there are tax filing positions that have been and can still be the subject of review by taxation authorities who may successfully challenge the Corporation's interpretation of the applicable tax legislation and regulations, with the result that additional taxes could be payable by the Corporation and the amount owed, with estimated interest but without penalties, could be up to $58 million. This amount is included in the estimated amount pertaining to the long-term income tax recoverable on the balance sheet of $65 million.

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

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

NOTE 27. SUBSIDIARIES

Significant subsidiaries

	Country of incorporation	Ownership interest		January 1, 2010
		2011	2010	
Precision Limited Partnership	Canada	100	100	100
Precision Drilling Canada Limited Partnership	Canada	100	100	100
Precision Diversified Oilfield Services Corp.	Canada	100	100	100
Axis Energy Services Ltd.	Canada	100	–	–
Precision Drilling (US) Corporation	United States	100	100	100
Precision Drilling Holdings Company	United States	100	100	100
Precision Drilling Company LP	United States	100	100	100
Precision Completion & Production Services Ltd.	United States	100	100	100
Precision Directional Services, Inc.	United States	100	–	–
Grey Wolf Drilling Limited	Cyprus	100	100	100

Supplemental Information

SHARE TRADING SUMMARY – 2011





Consolidated Statements of Earnings

Years ended December 31,	**2011**	2010	2009	2008	2007
(Stated in millions of Canadian dollars,					
except per share amounts)	IFRS		Previous CGAAP[1]		
Revenue	**$ 1,951.0**	$ 1,429.7	$ 1,197.4	$ 1,101.9	$ 1,009.2
Expenses:					
Operating	**1,131.0**	886.8	692.2	598.2	516.1
General and administrative	**124.9**	108.0	98.2	67.2	56.0
EBITDA	**695.1**	434.9	407.0	436.5	437.1
Depreciation and amortization	**251.5**	210.1	138.0	83.8	71.6
Loss on decommissioning	**114.9**	–	82.1	–	6.7
Operating earnings	**328.7**	224.8	186.9	352.7	358.8
Foreign exchange	**(23.7)**	(12.7)	(122.8)	(2.0)	2.4
Finance charges	**115.3**	211.3	147.4	14.1	7.4
Other	**(3.8)**	–	–	–	–
Earnings from continuing operations before income taxes	**240.8**	26.2	162.3	340.6	349.0
Income taxes	**47.3**	(17.3)	0.6	37.9	6.2
Earnings from continuing operations	**193.5**	43.5	161.7	302.7	342.8
Discontinued operations, net of tax	**–**	–	–	–	3.0
Net earnings	**193.5**	43.5	161.7	302.7	345.8
Earnings per share from continuing operations:					
Basic	**$ 0.70**	$ 0.16	$ 0.65	$ 2.23	$ 2.54
Diluted	**$ 0.67**	$ 0.15	$ 0.63	$ 2.23	$ 2.54
Earnings per share:					
Basic	**$ 0.70**	$ 0.16	$ 0.65	$ 2.23	$ 2.57
Diluted	**$ 0.67**	$ 0.15	$ 0.63	$ 2.23	$ 2.57

(1) Financial information prepared using previous Canadian generally accepted accounting principles.

Additional Selected Financial Information

Years ended December 31, *(Stated in millions of Canadian dollars, except per share amounts)*	**2011**	2010	2009	2008	2007
	IFRS		Previous CGAAP[1]		
Return on sales – % [2]	**9.9**	3.0	13.5	27.5	34.0
Return on assets – % [3]	**4.9**	1.3	3.6	12.4	19.9
Return on equity – % [4]	**9.5**	2.2	6.2	19.6	27.0
Working capital	**$ 610.4**	$ 458.0	$ 320.9	$ 345.3	$ 140.4
Current ratio	**2.4**	3.1	3.5	2.0	2.1
PP&E and intangibles	**$ 2,942.3**	$ 2,532.4	$ 2,917.1	$ 3,248.9	$ 1,210.9
Total assets	**$ 4,427.9**	$ 3,564.5	$ 4,191.7	$ 4,833.7	$ 1,763.5
Long-term debt	**$ 1,239.6**	$ 804.5	$ 748.7	$ 1,368.3	$ 119.8
Shareholders' equity	**$ 2,132.6**	$ 1,932.8	$ 2,584.5	$ 323.9	$ 1,316.7
Long-term debt to long-term debt plus equity	**0.37**	0.29	0.22	0.37	0.08
Interest coverage [5]	**2.8**	1.1	1.3	24.9	49.0
Net capital expenditures from continuing operations excluding business acquisitions	**$ 710.4**	$ 163.6	$ 177.5	$ 219.1	$ 181.2
EBITDA	**$ 695.1**	$ 434.9	$ 407.0	$ 436.5	$ 437.1
EBITDA – % of revenue	**35.6**	30.4	34.0	39.6	43.3
Operating earnings	**$ 328.7**	$ 224.8	$ 186.9	$ 352.7	$ 358.8
Operating earnings – % of revenue	**16.8**	15.7	15.6	32.0	35.6
Cash flow from continuing operations	**$ 532.8**	$ 306.3	$ 504.7	$ 343.9	$ 484.1
Cash flow from continuing operations per share:					
Basic	**$ 1.93**	$ 1.11	$ 2.02	$ 2.54	$ 3.59
Diluted	**$ 1.85**	$ 1.07	$ 1.94	$ 2.53	$ 3.59
Book value per share [6]	**$ 7.72**	$ 7.01	$ 9.38	$ 14.51	$ 10.47
Price earnings ratio [7]	**15.00**	41.74	11.77	4.21	5.49
Basic weighted average shares outstanding *(000's)*	**275,899**	275,655	249,925	135,568	134,765

(1) Financial information prepared using previous Canadian generally accepted accounting principles.
(2) Return on sales was calculated by dividing earnings from continuing operations by total revenues.
(3) Return on assets was calculated by dividing net earnings by quarter average total assets.
(4) Return on equity was calculated by dividing net earnings by quarter average total shareholders' equity.
(5) Interest coverage was calculated by dividing operating earnings by net interest expense.
(6) Book value per share was calculated by dividing shareholders' equity by shares outstanding.
(7) Year end closing price divided by basic earnings per share.