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

FORM 40-F

o **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, 2010

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)

4200-150 6th Avenue, S.W., Calgary, Alberta, Canada T2P 3Y7
(403) 716-4500
(Address and telephone number of Registrant's principal executive offices)

Precision Drilling Oilfield Services Corporation, 10370 Richmond Avenue, Suite 600, Houston, Texas 77042
(713) 435-6184
(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: 275,686,676 Common Shares outstanding as at December 31, 2010.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Yes o No þ

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

Yes þ No o

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 o No o

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

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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, 2010, 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, 2010, 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, 2010, 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 2010 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, as defined in this Form.

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:	Robert L. Phillips
	Allen R. Hagerman
	Robert J.S. Gibson
	William T. Donovan

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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, 2011

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, 2010.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010.
99.3	Consolidated Financial Statements for the fiscal year ended December 31, 2010.

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 the inclusion in this 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-10 (No. 333-167610) of Precision Drilling Corporation of our report dated March 15, 2011, on the consolidated balance sheets of Precision Drilling Corporation as at December 31, 2010 and 2009, and the consolidated statements of earnings and retained earnings (deficit) and cash flow for each of the years in the three-year period ended December 31, 2010, and
- the registration statement on Form S-8 (No. 333-167614) of Precision Drilling Corporation of our report dated March 15, 2011, on the effectiveness of internal control over financial reporting as of December 31, 2010.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 30, 2011

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 29, 2011

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 29, 2011

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, 2010, 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 29, 2011

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, 2010, 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 29, 2011



PRECISION DRILLING CORPORATION
ANNUAL INFORMATION FORM

For the fiscal year ended December 31, 2010

Dated March 25, 2011

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CORPORATE STRUCTURE

THE CORPORATION

Precision Drilling Corporation ("**Precision**" or the "**Corporation**") is incorporated 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 for each such unit held. Precision's 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 "General Development of the Business — The Arrangement".

The head and registered office of the Corporation is located at 4200, 150 — 6th Avenue S.W., Calgary, Alberta, T2P 3Y7, telephone (403) 716-4500, facsimile (403) 264-0251, email info@precisiondrilling.com and website www.precisiondrilling.com.

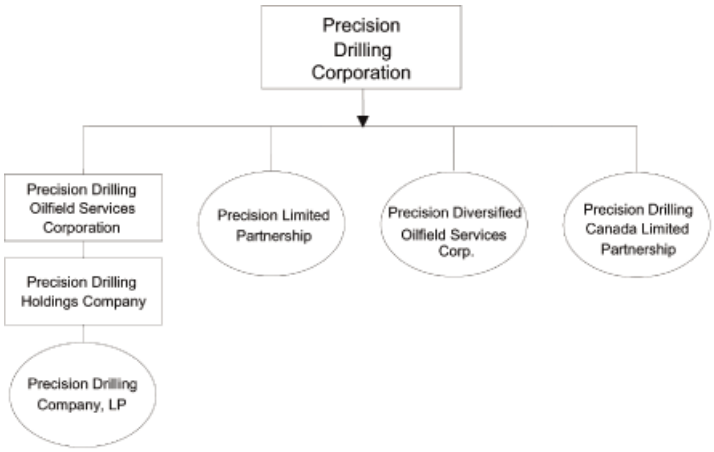
Unless the context otherwise requires, all references in this Annual Information Form to "Precision" or to the "Corporation" for periods after the effective date of the Arrangement refer to Precision Drilling Corporation and, where the context requires, includes Precision Drilling Corporation and all 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, 2010. 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 Oilfield Services Corporation	100% (Directly)	Texas
Precision Drilling Holdings Company	100% (Indirectly)	Nevada
Precision Drilling Company, LP	100% (Indirectly)	Texas

GENERAL DEVELOPMENT OF THE BUSINESS

Precision provides onshore drilling, well servicing and ancillary oilfield services to the oil and gas industry in most conventional and unconventional oil and natural gas basins in Canada, the United States and southern Mexico. The Corporation's subsidiaries operate a fleet of drilling and service rigs and offer complementary technical services to a broad customer base that provides a substantial foundation for expansion in North America and internationally.

RECENT DEVELOPMENTS

2011 Senior Note Offering. On March 15, 2011, the Corporation announced the closing of its offering (the "**2011 Note Offering**") of $200 million aggregate principal amount of 6.50% senior unsecured notes due 2019 (the "**6.50% Senior Notes**") in a private placement offering to Canadian investors. The net proceeds from the 2011 Note Offering and available cash were used by the Corporation to repay its outstanding indebtedness under the 2010 Revolving Credit Facility (as defined herein). See "Description of Capital Structure — Material Debt".

Repayment of the 10% Senior Note. On February 23, 2011, Precision repaid, in full, the 10% senior unsecured note (the "**10% Senior Note**") issued to Her Majesty the Queen in Right of the Province of Alberta, represented by Alberta Investment Management Corporation (the "Private Placement Investor"). The aggregate repayment of approximately $204 million, included the $175 million in principle, accrued interest and a "make-whole" amount payable to Alberta Investment Management Corporation under the terms of the 10% Senior Note. The repayment was made from cash on hand and borrowings under the 2010 Revolving Credit Facility. The accrued interest and the "make-whole" premium will be a charge to earnings in the first quarter of 2011. See "Three-Year History — 2009".

International Expansion. In the first quarter of 2011, Grey Wolf International commenced opening new offices in Bogota, Colombia and redeployed the rig used at the Copiapo mine rescue in Chile to shore facilities in Santa Marta, Colombia. Grey Wolf also commenced opening new offices in Dubai, United Arab Emirates in the first quarter of 2011.

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. Certain first-time adoption elections may be made which will impact the opening balance sheet amounts. See "Transition to International Financial Reporting Standards".

Tax Reassessment. On February 9, 2011, the Corporation received a notice of reassessment from Canada Revenue Agency for $216 million relating to a transaction that occurred in the 2005 tax year. Precision will appeal this reassessment as it vigorously defends what it believes to be a correct filing position related to this transaction. The appeal process requires Precision to pay security of approximately $108 million. See "Risk Factors — Precision could face negative tax consequences for previous transactions".

THREE-YEAR HISTORY

In the past three years, Precision expanded its market territory by completing a major United States acquisition and strategically migrating rigs to areas of high demand in North America. Precision also built 34 new high performance Super Series rigs that enhance its ability to drill wells in technically challenging resource plays. Precision has 355 rigs providing

High Performance, High Value services in most of the key oil and natural gas resource development areas in Canada and the United States, has two rigs in Mexico, one rig in Colombia and is expanding into new international markets.

2010

2010 Senior Note Offering. On November 17, 2010, the Corporation announced the closing of a private placement note offering (the "**2010 Note Offering**") of US$650 million aggregate principal amount of 6.625% senior unsecured notes due 2020 (the " **6.625% Senior Notes**"). The net proceeds from the 2010 Note Offering were used to repay, in full, the outstanding indebtedness under the Corporation's Secured Facility (as defined herein), including existing term loan A and term loan B credit facilities and for general corporate purposes. See "Description of Capital Structure — Material Debt".

New Credit Facility. In connection with the closing of the 2010 Note Offering and the termination of the Secured Facility, the Corporation entered into a new US$550 million senior secured revolving credit facility expiring in 2013 (the "**2010 Revolving Credit Facility**"). Subject to certain conditions, the 2010 Revolving Credit Facility may be increased by an additional US$100 million.

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 of the Corporation (a "**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. The board of directors (the "**Board of Directors**") and senior management of the Corporation is comprised of the former members of the board of directors and senior management of Precision Drilling Corporation prior to the Arrangement. In connection with the Arrangement, certain subsidiaries and affiliates of Precision were wound-up and dissolved, including PDLP.

New Rig Builds. Precision placed four newly constructed or "new build" Super Series rigs into service in 2010 under previously negotiated contracts, being two Super Single rigs in Canada and two Super Triple rigs in the United States. Precision's Super Series rigs utilize advanced power distribution and control systems, integrated top drives, highly mechanized tubular handling equipment and rig-move capabilities which allow for faster deployment, enable crews to safely reduce drilling downtime, increase efficiency and deliver cost savings to customers.

Commodity Prices. Precision's business depends on the level of spending by oil and natural gas companies for exploration and development activities, which is significantly influenced by increases and decreases in commodity prices. The recovery in oil prices commencing in the latter half of 2009 continued in 2010, fueling a further shift in drilling activity in North America toward oil and liquids-rich reservoirs. Natural gas prices meanwhile remained at historically low levels throughout 2010 due to an increase in United States gas production by approximately 3% over 2009. In Canada, approximately 66% of all successful wells drilled in 2010 targeted oil reservoirs and 34% targeted natural gas. In the United States, approximately 51% of all successful wells drilled in 2010 were targeting oil and liquids-rich plays and 49% were targeting natural gas.

Increased Drilling Activity. Precision experienced an increase in the demand for its services beginning in the second half of 2009 which continued through 2010 due to a significant increase in oil prices over the same period. Drilling levels in the United States recovered significantly in 2010 from a six-year low at mid-year 2009. Canadian drilling levels, which had been depressed since late 2008, also increased in 2010. Precision had an average of 89 drilling rigs in North America working under term contracts in 2010 which contributed to higher rig utilization and improved annual financial results. With the resurgence in oil targeted drilling in Canada and the United States in 2010 and the outlook for continued improvement in 2011, Precision's customers continue to show strong interest in signing long-term agreements for premium, new-build Super Series rigs capable of directional and horizontal drilling in complex geologic formations.

Customers. Precision provided drilling rig services to approximately 260 customers in 2010, including about 150 in Canada and 110 in the United States. These customers included independent producers and major oil and gas companies. In fiscal 2010, no single customer accounted for 10% or more of Precision's consolidated revenue.

Utilization. The rise in drilling activity throughout North America in 2010 contributed to improved industry rig fleet utilization. In Canada, utilization rates rose to approximately 41% from 25% in 2009, including a net reduction of

approximately 40 drilling rigs or about 5% of the industry fleet in 2010. In the United States, the industry fleet utilization continued to grow to 65% from 39% in 2009, as increased drilling of conventional and unconventional oil and liquids-rich natural gas wells drove demand for additional active rigs.

The following table summarizes the active land-based drilling rigs of Precision and the drilling industry as a whole in Canada and the United States as at the dates indicated:

	As at December 31, 2010		As at December 31, 2009	
	Industry[1]	Precision[2]	Industry[1]	Precision[2]
Canada	245	96	329	72
United States	1,670	98	1,150	76
Total	1,915	194	1,479	148

Notes:

(1) Source: Canada — Canadian Association of Oilwell Drilling Contractors; United States — Baker Hughes, Inc.

(2) Includes idle but contracted rigs in the United States; excludes rigs on standby in the United States and two active drilling rigs in Mexico.

Precision's average land drilling rig utilization in Canada was approximately 38% in 2010 and 23% in 2009 compared to the estimated Canadian industry average of 41% and 25%, respectively. In the United States, Precision's average land drilling rig utilization was approximately 60% in 2010 and 40% in 2009 compared to an estimated industry utilization rate of 65% and 39% for comparable years. As of December 31, 2010, Precision had 194 active land rigs drilling in Canada and the United States.

Precision seeks to balance its rig utilization levels at the general level of industry activity by providing superior service and well-maintained equipment and by obtaining term contracts which typically provide for fixed utilization rates for a minimum six-month duration, early termination penalties, cost escalations and contract renewal options, which modulates cyclicality. In general, the aim is to balance utilization and optimal profitability concerns given competitive pricing and business fluctuations. Canada, in particular, experiences sharp seasonal fluctuations as a higher percentage of wells are drilled in the first quarter of the year when the ground is frozen, with activity falling off in the second quarter when rig moves are impeded by road bans imposed while spring thawing occurs, then gradually increasing in the third and fourth quarters.

Directional Drilling. Leveraging its position as a leading drilling contractor in most conventional and unconventional resource plays in North America where directional and horizontal wells represent nearly 70% of all wells drilled, Precision materially advanced its new directional drilling business in 2010. During the year, additional technical personnel were hired, directional and MWD equipment was acquired and operation centres were opened in Nisku, Alberta and Houston, Texas. A support centre for real-time management of directional and horizontal drilling operations in the field was opened in Calgary, Alberta, with a similar facility scheduled to be on line in Houston, Texas in 2011.

Turnkey Drilling. Precision is one of the leading land drilling contractors providing "turnkey" services to oil and gas companies in the South Louisiana, Gulf Coast, South Texas, East Texas and Mississippi areas. Under a turnkey arrangement with the customer, Precision drills a well to an agreed depth for a fixed price. With nearly a decade of experience, Precision has completed more than 450 turnkey wells in these regions including 17 in 2010, 18 in 2009 and 46 in 2008.

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 leading land drilling contractor acquired by Precision on December 23, 2008 (the "**Acquisition**"). The subsidiary currently conducting operations in the United States is Precision Drilling Company, LP, which operated a fleet of 146 land drilling rigs as at December 31, 2009. The integration of Precision and Grey Wolf entailed realigning personnel, implementation of 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 (as defined herein), 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.

Directional Drilling. Following the expiration in 2008 of non-competition restrictions from the sale in 2005 of former businesses, Precision launched a new operation in late 2008 focused specifically on providing directional drilling services, particularly to oil and natural gas customers who may benefit from cost savings achievable through single-source contracting of drilling rigs and directional drilling services. A rising industry trend toward directional and horizontal well programs coupled with the high cost of hiring directional field personnel provides an opportunity for Precision to successfully compete in this market in both the United States and Canada where a high percentage of its rigs are drilling horizontal or directional wells.

Refinancing Activities. Precision completed activities that enabled it to repay the Unsecured Facility (as defined herein) entered into in connection with the 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 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 (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 the Private Placement Investor. The proceeds from the issuance of the Trust Units, Warrants and the 10% Senior Note were used to reduce the obligations of Precision under the Unsecured 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 bridge loans of $296 million (US$235 million) which bore interest at 17% and allowed Precision's Secured Facility (as defined herein) to be fully syndicated and thereby provide certainty to the cost of debt.

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 Acquisition, merged with Precision Drilling Company, LP.

2008

Grey Wolf Acquisition. On December 23, 2008, Precision completed the indirect acquisition of Grey Wolf, Inc. pursuant to an agreement and plan of merger dated August 24, 2008, as amended December 2, 2008 (the "**Merger Agreement**") with Grey Wolf, Precision and Precision Lobos Corporation ("**Lobos**") a subsidiary of the Trust. Grey Wolf was merged with and into Lobos pursuant to the *Texas Business Corporations Act* and the *Texas Corporation Law*. Accordingly, the separate legal existence of Grey Wolf has ceased and Lobos, which was subsequently renamed "Precision Drilling Oilfield Services Corporation", became the surviving corporation. The total consideration paid by the Trust to

shareholders of Grey Wolf in connection with the Acquisition was approximately US$897.2 million and 34.4 million Trust Units.

The Acquisition is described in greater detail in the business acquisition report dated January 21, 2009, and the material change report dated December 23, 2008, in respect of the Acquisition, both of which reports were filed on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

Organic Growth. In addition to the Acquisition, Precision's organic growth in the United States accelerated during 2008 with 18 rigs moved from Canada. Precision also deployed three rigs under its Super Series new-build drilling rig program and invested $170 million in expansion capital for the purchase of property, plant and equipment and $60 million in upgrade capital in 2008.

Other Acquisitions. On July 31, 2008, Precision also closed the acquisition of six service rigs from a private well servicing company for approximately $16 million. The assets are positioned in southeastern Saskatchewan and southwestern Manitoba and strengthened Precision's capabilities in these oil regions. Subsequent to this acquisition, Precision moved an additional three service rigs into these regions.

Other Events. On September 1, 2008, Precision transferred substantially all of the assets of its Precision Well Servicing (" **Precision Well Servicing**"), Live Well Service ("**Live Well Service**"), Precision Rentals ("**Precision Rentals**") and LRG Catering (" **LRG Catering**") divisions to Terra Water Systems Limited Partnership, which subsequently changed its name to "Precision Limited Partnership", in consideration for a 99.9% limited partnership interest in Precision Limited Partnership. The general partner is a wholly-owned subsidiary, Precision Diversified Oilfield Services Corp., which holds the remaining 0.1% interest. Precision Limited Partnership carries on the businesses which comprise Precision's Completion and Production Services segment. See "Description of the Business of Precision — Completion and Production Services Segment".

On August 31, 2008, certain non-competition obligations from a 2005 business divestiture that restricted the Trust's growth in certain business lines outside of Canada and the United States expired.

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, camp and catering 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, 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 wellsite accommodation rentals and drilling camps. Internationally, Precision is focused on land drilling services.

Precision's revenue by business segment from continuing operations is illustrated in the following table:

	Years ended December 31,		
Stated in thousands of Canadian dollars	**2010**	**2009**	**2008**
Contract Drilling Services	$1,212,656	$1,030,852	$809,317
Completion and Production Services	227,835	176,422	308,624
Inter-segment Eliminations	(10,838)	(9,828)	(16,050)
Total Revenue	**$1,429,653**	**$1,197,446**	**$1,101,891**

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, 2010, the Contract Drilling Services segment comprised:

- 202 land drilling rigs in Canada;
- 150 land drilling rigs in the United States;
- two land drilling rigs in Mexico;
- one land drilling rig in Colombia;
- 80 drilling camps and two base camps in Canada;
- 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. Precision operates a versatile fleet of 355 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, 2010. It actively marketed 202 drilling rigs located throughout western Canada, which accounted for approximately 25% of the industry's fleet of 794 drilling rigs.

In the United States, at the end of 2010, Precision operated 150 land drilling rigs, the fourth largest fleet, representing approximately 5% of the country's estimated 2,938 total marketed land drilling rigs.

Internationally, Precision had two land drilling rigs operating in Mexico and one idle rig in Colombia at year end 2010.

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 89 drilling rigs in 2010, 39 in Canada, 48 in the United States and two in Mexico.

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 — Unexpected cost overruns on turnkey drilling jobs could adversely affect Precision's revenues".

In Canada, Precision's contracts have been carried out almost exclusively on a daywork basis. In the United States, subsequent to the Acquisition, the majority of Precision's contracts have been carried out on a daywork basis, with approximately 3%, based on rig utilization, performed on a turnkey basis in 2010. 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 capital return contract 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 49% 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 69% 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 rig fleet capabilities at the end of 2010 are illustrated in the following table:

Tier	Canada	United States	Mexico	Colombia	Total
1	66	54	0	0	120
2	65	58	2	1	126
3	71	38	0	0	109
Total	**202**	**150**	**2**	**1**	**355**

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 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.

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 are more a method of distinguishing between rigs where improvements have been effectively applied to provide an increased level of performance through the application of various advanced equipment and associated technologies.

A list of Precision's contract drilling rigs, including detailed inventory and layout specifications, is available at www.precisiondrilling.com.

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 and are particularly adept at developing unconventional resources such as oil sands, natural gas in coal or in shale or tight gas reservoirs. In 2010, Precision had a footprint in most of the large resource plays in North America, 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.

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.

Rigs are configured to handle either one, two or three joints of standard length drill pipe at one time and are categorized as singles, doubles or triples based on this capability. Drilling is halted each time new pipe is added to the drill string, so longer pipe lengths and faster connections are significant time and cost savers. To address customer requirements for efficiency and safety, Precision also utilizes top drives in its drilling operations. A top drive consists of one or more hydraulic or electric motors suspended in the mast of the drilling rig to rotate the drill string in the place of a traditional rotary table and kelly bushing. Top drives enable the use of 30-metre (90-foot) or 15-metre (45-foot) lengths of drill pipe on triple, double and Super Single rigs, respectively, rather than traditional 10-metre (30-foot) lengths, thereby reducing the number of required connections in the drill string and generally increasing drilling efficiency and wellbore integrity.

Single and double rigs are generally used by Precision in the shallow drilling markets in Canada, while triple rigs, which have greater hoisting capacity, are used in deeper exploration and development drilling applications such as the foothills and Rocky Mountain regions of Canada and the United States, and in Louisiana and west Texas.

Super Single Rigs. Precision's Super Single rigs are equipped with top drive drilling systems, mechanized pipe handling systems and extended-length (15-metre or 45-foot) drill pipe which reduces the number of times the rig must stop drilling to make new pipe connections. These rigs generally have slant drilling capability, which also enhances their ability to drill directional and horizontal wells drilled in North America as a result of the emphasis on new resource plays in more complex geologic formations. Precision believes the Super Single rig category will continue to offer significant revenue growth because of its unique capabilities. The Super Single Light is a scaled-down version of the Super Single without slant drilling capabilities which competes with coiled tubing rigs and offers greater drilling capability over a wider range of well configurations.

Grey Wolf International

Grey Wolf International is the platform for Precision's entry into the international oil and gas drilling and workover market. This business is focused on bids for work in Latin America, the Middle East and Mexico. It is the nature of this work that there are long sales cycles with bidding periods, contract award periods and rig mobilization periods measured in months, so development of this business involves long lead times. Grey Wolf International is actively exploring opportunities in target markets where Precision expertise and rig build style is expected to be an advantage. The outlook is positive for international drilling activity if customers remain confident that commodity prices, primarily for oil, will be sustained at higher levels.

Grey Wolf renewed its contracts with the same major service provider for the two drilling rigs that have been working in Mexico for the past several years. These term contracts are for approximately 30 months and are expected to expire in early 2013. The Grey Wolf rig which played a role in the Copiapo mine rescue effort in Chile in the third quarter of 2010 was subsequently mobilized to Colombia where Grey Wolf commenced opening new offices in early 2011. Also in the first quarter of 2011, Grey Wolf commenced opening new offices in Dubai, United Arab Emirates.

LRG Catering

LRG Catering provides food and accommodation to personnel working at the wellsite, typically in remote locations in western Canada. LRG Catering has 80 drill camps and two base camps, representing approximately 10% of the camp and catering business in western Canada. 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 in western Canada moves to more remote locations in search of new reserves, there is increasing 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.

Rostel Industries

Rostel Industries manufactures and refurbishes custom drilling rig and service rig components primarily for Precision business units. Rostel Industries is fundamental to Precision's vertical integration and provides a competitive advantage in reducing costs for customers. 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 sustains high plant utilization by marketing 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 as well as an equipment sales group that specializes in the distribution of mud

pumps and other imported products. Rostel Industries also designs and builds a significant portion of the components for Precision's Super Single drilling rigs and is developing products that can be applied to new rigs and retro-fitted to improve the versatility of many of Precision's existing rigs. Strategically, Rostel Industries gives Precision the ability to control cost, quality and production schedules to meet customer requirements.

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. Approximately 99% of the oilfield supply activities of Columbia Oilfield Supply and Grey Wolf Supply support Precision operations in North America, playing a key role in supply chain management.

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 operating primarily in Canada, including Precision Well Servicing, Precision Rentals and Terra Water Systems. These subsidiaries are engaged primarily in providing completion and workover services and ancillary services and equipment rentals to oil and natural gas exploration and production companies in Canada. Effective May 1, 2010, the snubbing service business, formerly known as Live Well Service, was combined with Precision Well Servicing. At December 31, 2010, Precision's Completion and Production Services segment comprised:

- 200 well completion and workover service rigs in Canada;
- 20 snubbing units in Canada;
- approximately 11,050 oilfield rental items including well control equipment, surface equipment, specialty tubulars and wellsite accommodation units in Canada and the United States;
- 77 wastewater treatment and three potable water production units in Canada; and
- one drilling camp and 11 wellsite accommodation units 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 and snubbing. 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. Servicing a well often means the customer must coordinate activities of several service companies.

At the end of 2010, Precision Well Servicing had a Canadian industry market share of approximately 20% with a fleet of 200 service rigs, the largest in western Canada, compared to a Canadian industry fleet average of approximately 1,000 service rigs. For Precision Well Servicing in 2010, well completions accounted for approximately 25% of total activity and workovers accounted for approximately 75% of total activity, both unchanged from 2009.

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, 2010, is illustrated in the following table:

Type of Service Rig		Horsepower	Total
Single	Freestanding mobile	150-400	94
	Mobile	250-550	25
Double	Freestanding mobile	200-550	35
	Skid	300-860	28
Slant	Freestanding mobile	250-400	18
Total			**200**

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 13 portable hydraulic rig-assist snubbing units and seven self-contained snubbing units in western Canada. 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 to safely perform services using fluids which may impair production.

Precision Rentals

Precision Rentals provides approximately 11,050 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 four 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.

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.

Terra Water Systems has 77 portable wastewater treatment plants and three potable water production plants that operate within the remote work site market in western Canada. System management for each plant facility includes bi-

weekly 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.

Precision Completion and Production Services

Precision Completion and Production Services began operations in the United States in late 2010 and at December 31, 2010, rented 11 wellsite accommodations and one drilling camp to customers operating in North Dakota. As the Precision Completion and Production Services business continues to grow, a suite of rental surface and downhole tubular equipment and additional wellsite accommodations and drill camps will be actively marketed to customers primarily in the United States. Precision Completion and Production Services also intends to seek opportunities to provide snubbing services and wastewater treatment services to customers in the United States.

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 our "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 2010, a total of 248 (70%) of Precision's drilling rigs and 193 (88%) of its service rigs worked without a recordable injury, or achieved Target Zero. Also in 2010, a total of 297 (84%) of Precision's drilling rigs and 214 (98%) of its service rigs were lost time free. In 2010, hours worked increased 33% compared to 2009 while injuries increased 25% for the same period.

Precision develops solutions to manage the loss of energy and resources. Rig designs incorporate high efficiency diesel engines which meet tier 2 and tier 3 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 6,584 employees at the end of 2010, including 890 in salaried positions and 5,694 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 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 89% in Canada and 87% in the United States in 2010.

RECORD OF CASH PAYMENTS

On February 9, 2009, Precision announced that it had suspended cash distributions, after February 17, 2009, for an indefinite period. On December 16, 2009, Precision confirmed the indefinite suspension of cash distributions.

There have been no dividends paid on the Common Shares and Precision does not currently anticipate paying any dividends on its Common Shares in the foreseeable future. Any decision to pay dividends on the Common Shares in the future will be made by the Board of Directors as circumstances warrant.

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
2008			
Regular Distribution	January 31, 2008	February 15, 2008	$ 0.130
Regular Distribution	February 29, 2008	March 18, 2008	$ 0.130
Regular Distribution	March 31, 2008	April 15, 2008	$ 0.130
Regular Distribution	April 30, 2008	May 15, 2008	$ 0.130
Regular Distribution	May 30, 2008	June 17, 2008	$ 0.130
Regular Distribution	June 30, 2008	July 15, 2008	$ 0.130
Regular Distribution	July 31, 2008	August 15, 2008	$ 0.130
Regular Distribution	August 29, 2008	September 16, 2008	$ 0.130
Regular Distribution	September 30, 2008	October 15, 2008	$ 0.130
Regular Distribution	October 31, 2008	November 18, 2008	$ 0.130
Regular Distribution	November 28, 2008	December 16, 2008	$ 0.130
Regular Distribution	December 31, 2008	January 15, 2009	$ 0.130
Special Year-end in-kind Distribution(1)	December 31, 2008	January 15, 2009	$ 0.150
2009			
Regular Distribution	January 30, 2009	February 17, 2009	$ 0.040

Note:

(1) The special year-end distribution was settled "in-kind" through the issuance of Trust Units rather than the payment of cash in order for the Trust to minimize debt levels and retain balance sheet strength. Immediately after the special in-kind distribution the outstanding Trust Units were consolidated so that the number of Trust Units outstanding remained unchanged from the number of Trust Units outstanding immediately before the special in-kind distribution.

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
2008			
Regular Payment	January 31, 2008	February 15, 2008	$ 0.130
Regular Payment	February 29, 2008	March 18, 2008	$ 0.130
Regular Payment	March 31, 2008	April 15, 2008	$ 0.130
Regular Payment	April 30, 2008	May 15, 2008	$ 0.130
Regular Payment	May 30, 2008	June 17, 2008	$ 0.130
Regular Payment	June 30, 2008	July 15, 2008	$ 0.130
Regular Payment	July 31, 2008	August 15, 2008	$ 0.130

Payment Type	Record Date	Payment Date	Amount per Exchangeable LP Unit
Regular Payment	August 29, 2008	September 16, 2008	$ 0.130
Regular Payment	September 30, 2008	October 15, 2008	$ 0.130
Regular Payment	October 31, 2008	November 18, 2008	$ 0.130
Regular Payment	November 28, 2008	December 16, 2008	$ 0.130
Regular Payment	December 31, 2008	January 15, 2009	$ 0.130
Special Year-end in-kind Payment(1)	December 31, 2008	January 15, 2009	$ 0.150
2009			
Regular Payment	January 30, 2009	February 17, 2009	$ 0.040

Note:

(1) The special year-end payment was settled "in-kind" through the issuance of Trust Units rather than cash in order for the Trust to minimize debt levels and retain balance sheet strength. Immediately after the payment of the special in-kind payment, the outstanding Trust Units were consolidated so that the number of Trust Units outstanding after the special in-kind payment remained unchanged from the number of Trust Units outstanding immediately prior to the special in-kind payment. Exchangeable LP Unitholders received the economic equivalent treatment.

The historical distributions described above may not be reflective of future distributions, which are subject to review by the Board of Directors taking into account the prevailing circumstances at the relevant time. See "Recent Developments — Conversion to a Corporation".

DESCRIPTION OF CAPITAL STRUCTURE

DESCRIPTION OF COMMON SHARES

As of December 31, 2010, there were 275,686,676 Common Shares issued and outstanding and as at March 1, 2011, there were 275,725,588 Common Shares issued and outstanding.

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 represents an equal undivided beneficial interest in any distribution from the Corporation (whether from income, net realized capital gains or other amounts) and in any net assets of the Corporation in the event of the termination or dissolution of the Corporation. All Common Shares rank among themselves equally and rateably without discrimination, preference or priority whatsoever.

The market price of the Common Shares will be sensitive to, among other things, a variety of market conditions including, but not limited to, interest rates, commodity prices and the ability of the Corporation to maintain and grow revenues. Changes in market conditions may adversely affect the trading price of the Common Shares.

Issuance of Common Shares

The Articles of Incorporation provide that Common Shares, including rights, warrants, options or other securities convertible into or exchangeable for Common Shares, may be created, issued, sold and delivered in an unlimited number on such terms and conditions and at such times as the Board of Directors may determine. The Articles of Incorporation also provide that the Board of Directors may authorize the creation and issuance of any type of debt securities or convertible debt securities of the Corporation from time to time on such terms and conditions to such persons and for such consideration as the Board of Directors may determine.

Purchase of Common Shares

The Corporation may, from time to time, purchase for cancellation some or all of the Common Shares (or other securities of the Corporation which may be issued and outstanding from time to time) in the market, by private agreement or upon any recognized stock exchange on which such Common Shares are traded or pursuant to tenders received by the Corporation upon request for tenders addressed to all holders of record of Common Shares, provided in each case that the Board of Directors have determined that such purchases are in the best interests of the Corporation. Any such purchases may constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Cash Dividends on Common Shares

There have been no cash dividends paid on the Common Shares and Precision does not currently anticipate paying any cash dividends on its Common Shares in the foreseeable future. Any decision to pay cash dividends on the Common Shares in the future will be made by the Board of Directors as circumstances warrant.

The Board of Directors review the Corporation's dividend policy from time to time. The actual amount distributed is dependent on various economic factors and dividends are declared at the discretion of the Board of Directors. The actual cash flow available for distribution to Shareholders is a function of numerous factors, including the Corporation's financial performance, debt covenants and obligations, working capital requirements, productive capacity maintenance expenditures and expansion capital expenditure requirements for the purchase of property, plant and equipment and number of Common Shares issued and outstanding.

The distribution reinvestment plan, approved by the board of trustees of the Trust on February 14, 2006, and implemented on March 31, 2006, was terminated in connection with the Arrangement.

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, 2010, no Warrants have been exercised. See "Three-Year History — 2009".

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 the June 1, 2010, subject to the terms and conditions of the Shareholder Rights Plan.

Meetings of Shareholders

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.

DESCRIPTION OF PREFERRED SHARES

As of December 31, 2010 and March 1, 2011 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, restrictions, conditions and limitations 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 Preferred Shares of each series will have priority over the Common Shares in the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among Shareholders for the purpose of winding up the affairs of the Corporation. 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

In 2008, and in connection with the Acquisition, Precision entered into a US$1.2 billion senior secured credit facility (the " **Secured Facility**") with a syndicate of lenders consisting of the Royal Bank of Canada, RBC Capital Markets, Deutsche Bank AG Cayman Islands Branch, Deutsche Bank Securities Inc., HSBC Bank Canada, HSBC Bank USA, National Association and The Toronto-Dominion Bank, and certain other lenders, that was guaranteed by the Trust and was comprised of US$800 million of term loans and a US$400 million revolving credit facility and also entered into a US$400 million unsecured credit facility (sometimes referred to as a bridge loan) with certain of the commitment banks (the "**Unsecured Facility**") that was also guaranteed by the Trust. The Secured Facility and the Unsecured Facility funded the cash portion of the purchase price of the Acquisition and refinanced the pre-closing Precision bank debt and certain pre-closing debt obligations of Grey Wolf. On February 18, 2009, the Trust received gross proceeds of US$172.5 million from a Trust Unit offering. As a result of the Trust Unit offering, the funds available under the Unsecured Facility were reduced to US$235 million. The Unsecured Facility was used in the repurchase of US$262.3 million principal amount of Grey Wolf convertible notes tendered for repurchase by holders under a change of control offer made by Precision Drilling Oilfield Services Corporation in the first quarter of 2009. See "Three-Year History — 2009".

On April 22, 2009, Precision completed a private placement of $175 million principal amount of 10% Senior Note. The purchaser of the 10% Senior Note was the Private Placement Investor. The proceeds from the issuance of the 10% Senior Note were used to reduce the obligations of Precision under the Unsecured Facility. During the second quarter of 2009, Precision fully repaid the Unsecured Facility and completed syndication of the Secured Facility. On November 17, 2010, Precision completed the 2010 Note Offering and the proceeds from the 6.625% Senior Notes were used to repay, in full, the Secured Facility. See "Three-Year History — 2009" and "Recent Developments — Repayment of the 10% Senior Note".

On November 17, 2010, the Corporation used a portion of the net proceeds from the 2010 Note Offering to repay, in full, the outstanding indebtedness under the Secured Facility, of which the outstanding principal balance under the term loan A credit facility was approximately US$263 million and the outstanding principal balance under the term loan B credit facility was approximately US$318 million. The Corporation also terminated the revolving credit facility thereunder.

Also on November 17, 2010, the Corporation entered into the 2010 Revolving Credit Facility with Royal Bank of Canada, Credit Suisse AG, Toronto Branch and a syndicate of certain other lenders. The 2010 Revolving Credit Facility is a new US$550 million extendible revolving term credit facility maturing in 2013 which may be used for general corporate purposes, including for acquisitions.

The following is a summary of the material terms of the 2010 Revolving Credit Facility, the 6.625% Senior Notes and the 6.50% Senior Notes. Potential investors may refer to copies of the registration rights agreement (the "**Registration Rights Agreement**"), the note indenture governing the 6.625% Senior Notes (the "**6.625% Note Indenture**") and the note indenture governing the 6.50% Senior Notes (the " **6.50% Note Indenture**") which are available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

2010 Revolving Credit Facility

Overview. In connection with the 2010 Note Offering, the Corporation entered into the 2010 Revolving Credit Facility with Royal Bank of Canada, Credit Suisse AG, Toronto Branch and a syndicate of certain other lenders. The 2010

Revolving Credit Facility is a new US$550 million extendible revolving term credit facility maturing in 2013 which will be used for general corporate purposes, including for acquisitions.

The 2010 Revolving Credit Facility 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 2010 Revolving Credit 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 2010 Revolving Credit Facility.

Amount and Term. The 2010 Revolving Credit 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 2010 Revolving Credit Facility has a term of three years maturing on November 17, 2013, 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 three 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 2010 Revolving Credit 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 2010 Revolving Credit 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 2010 Revolving Credit Facility contains a requirement that it be repaid in full on November 17, 2013, 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 2010 Revolving Credit 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 2010 Revolving Credit 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 and "Baa3" from Moody's Investors Service, Inc., 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 Standard & Poor's Ratings Services and "Ba1" from Moody's Investors Service, Inc.

Certain Covenants and Events of Default. The 2010 Revolving Credit 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 2010 Revolving Credit Facility also contains customary affirmative covenants and events of default.

The 2010 Revolving Credit 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 2.5 to 1.0; (ii) a maximum consolidated total debt to EBITDA ratio of 3.5 to 1.0; and (iii) a minimum interest coverage ratio of 2.75 to 1.0.

At December 31, 2010, 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 $0.1 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 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.

6.625% Senior Notes

On November 17, 2010, the Corporation completed a US$650 million private placement offering of 6.625% senior unsecured notes. The 6.625% Senior Notes were issued and are governed under the terms of the 6.625% Note Indenture and the Registration Rights Agreement and are exempt from the registration requirements of the *United States Securities Act* under Rule 144A and Regulation S. The 6.625% Senior Notes are denominated in United States dollars and all payments on the 6.625% Senior Notes will be made in United States dollars.

The net proceeds of the 2010 Note Offering were used to repay all of the outstanding indebtedness under the Secured Facility and for general corporate purposes. The 6.625% Senior Notes will mature on November 15, 2020, and will 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 notes 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 6.625% Senior Notes 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 and interest on the 6.625% Senior Notes will be computed on the basis of a 360-day year of twelve 30-day months. Precision also will pay additional interest to holders of the 6.625% Senior Notes in the circumstances described in the Registration Rights Agreement.

Precision may redeem, prior to November 15, 2013, up to 35% of the 6.625% Senior Notes with the net proceeds of certain equity offerings. Prior to November 15, 2015, Precision may redeem the notes in whole or in part at 106.625% of their principal amount, plus accrued interest. 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 6.625% Senior Notes 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 and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

6.50% Senior Notes

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

The net proceeds of the 2011 Note Offering and available cash were used to repay all of the outstanding indebtedness under the 2010 Revolving Credit Facility. The 6.50% Senior Notes will mature on March 15, 2019, and will 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 6.50% Senior Notes 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 and interest on the 6.50% Senior Notes will be 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 6.50% Senior Notes with the net proceeds of certain equity offerings. Prior to March 15, 2015, Precision may redeem the notes in whole or in part at their principal amount, plus the applicable premium and accrued interest. 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 6.50% Senior Notes 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 6.50% Senior 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, 2010, approximately US$550 million (excluding letters of credit of US$23.4 million) was available under the 2010 Revolving Credit Facility, $647 million was outstanding under the 6.625% Senior Notes and $175 million was outstanding under the 10% Senior Note. See " Three-Year History — 2009" and "Recent Developments — Repayment of the 10% Senior Note".

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 Investors Service ("**Moody's**")	Standard & Poor's Ratings Services ("**S&P**")
Corporate Family Rating	Ba1	BB+
Senior Secured Bank Credit Facility Rating	Ba1	Not rated
Senior Unsecured Credit Rating (6.625% Senior Notes and 6.5% Senior Notes)	Ba2	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. Prior to the Conversion, the Trust Units were listed for trading under the symbol “PD.UN” on the TSX and under the symbol “PDS” on the NYSE. The following table sets forth the price range and trading volumes for the Common Shares and the Trust Units, as applicable, for the periods indicated:

	TSX			NYSE		
Period	**High** ($)	**Low** ($)	**Volume**	**High** (US$)	**Low** (US$)	**Volume**
2010						
January	9.73	7.65	26,960,807	9.34	7.32	41,879,295
February	9.00	8.02	15,656,093	8.51	7.51	28,774,296
March	8.94	7.34	25,209,477	8.72	7.16	31,984,881
April	8.28	7.29	21,445,215	8.26	7.15	39,541,615
May	7.74	5.99	29,075,215	7.66	5.54	35,904,259
June	8.03	7.02	28,590,819	7.92	6.60	34,016,960
July	8.00	6.73	12,643,486	7.68	6.31	21,551,830
August	7.83	6.46	6,261,482	7.86	6.07	13,547,137
September	7.11	6.22	10,817,134	6.91	6.02	16,322,202
October	8.09	7.04	12,633,800	7.95	6.88	18,225,341
November	8.91	7.62	22,653,665	8.69	7.61	19,494,787
December	9.95	8.83	15,534,581	9.89	8.67	16,537,763

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 the 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 also serves as 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 a director of Precision Drilling Corporation in December 2008. From 1997 to 2005, Mr. Donovan also served as President, Chief Executive Officer and director of Total Logistics, Inc., a Wisconsin corporation, which is 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.

W.C. (Mickey) Dunn(3)(4)(5) of Calgary, Alberta, Canada has been a director of Precision Drilling Corporation since September 1992. Mr. Dunn serves as the Chairman of Bellatrix Exploration Inc. and a founding shareholder and a director of Cash Store Financial Services Inc. From 1982 to 1999, Mr. Dunn was President and Chief Executive Officer of Cardium Service and Supply Limited, Cardium Tool Services Inc. and Colorado Silica Sand Inc., an international manufacturer and service provider of specialty downhole equipment and services, in addition to developer, provider and marketer of high grade silica sand products.

Brian A. Felesky, CM, Q.C.(4)(6) of Calgary, Alberta, Canada has been a director of Precision Drilling Corporation since December 2005. Mr. Felesky is Counsel to Felesky Flynn LLP, a law firm specializing in tax matters. He is professionally involved in acquisitions, mergers, financing and restructuring of public and private corporations, partnerships and trusts, in Canada and internationally. Mr. Felesky sits on the board of three other public companies. He also sits on several volunteer boards including the Canada West Foundation (Vice-Chair), Homefront (on domestic violence, Co-Chair), the Calgary Stampede Foundation and the Senate of Athol Murray College of Notre Dame and Awali (a teacher development program in East Africa). He is a member of the Order of Canada and has received numerous awards, including an Honourary Doctorate of Laws (University of Calgary), the Distinguished Service Award from the Law Society of Alberta and Canadian Bar Association and a Queen's Counsel designation.

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 served as President of a private investment firm, Stuart & Company Limited, since 1973 and is also the Managing Director of Alsten Holdings Ltd. since 1976. He serves on the Board of Cash Store Financial Services Inc. Mr. Gibson also serves as a director for a number of private companies which are active in real estate investment, oil and gas exploration, finance and investments. He is also Chairman and Director of the Canadian Defence and Foreign Affairs Institute.

Allen R. Hagerman, FCA(2) of Calgary, Alberta, Canada has been a director of Precision Drilling Corporation since December 2006. Mr. Hagerman currently holds the position of Executive Vice President of Canadian Oil Sands Limited, an oil sands mining and upgrading entity, and 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 lead director of Capital Power Income LP and a director of the Calgary Exhibition and Stampede. He is also a member of the Canadian Institute of Chartered Accountants, the Financial Executives Institute and is past President of Financial Executives Institute, Calgary Chapter, as well as past Chair of the Alberta Children's Hospital Foundation. Previous board positions included 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(3)(5) of Toronto, Ontario, Canada has been a director of Precision Drilling Corporation since December 2006. Effective November 1, 2010, Mr. Letwin was appointed Director and President and Chief Executive Officer of IAMGOLD Corporation, a leading mid-tier gold mining company producing approximately one million ounces annually, from eight gold mines on three continents. Mr. Letwin has been a senior executive with Enbridge since March 1999. Most recently, since May 2006, he held the position of Executive Vice President of Gas Transportation & International with Enbridge, Inc., with responsibility for Enbridge's natural gas operations, including certain natural gas pipelines, a gas distribution company and its international business unit. He also serves on the board of a private corporation. Mr. Letwin 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. Mr. Letwin is a member of the Financial Executives Institute. He also previously served as a director of the Canadian and American Gas Association, as well as the Interstate Natural Gas Association of America.

Patrick M. Murray(2) of Dallas, Texas, U.S.A. has been a director of Precision Drilling Corporation since July 2002. Mr. Murray served as Chairman and CEO of Dresser Inc. from 2001 until retiring in May 2007. Dresser Inc. 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 Harvest Natural Resources, Inc., the Maguire Energy Institute, the World Affairs Council of Dallas/Fort Worth, and the Board of Regents of Seton Hall University. Mr. Murray was also on the Board of Directors of Wellstream Holdings, Plc from 2007 until his resignation in February 2011. 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 from 2002 to 2007, 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 (since 2004), 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 honourary 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(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 twenty years, including several oil and gas exploration and production and oilfield service companies. In addition to Precision Drilling Corporation, he currently serves on the boards of several major Canadian corporations. Mr. Phillips is an active private investor. He also practiced corporate and securities law for over fifteen years.

Trevor M. Turbidy(3)(4) of Houston, Texas, U.S.A. has been a director of Precision Drilling Corporation since December 2008. Mr. Turbidy has served as an Energy Industry Advisor with Avista Capital Partners since December 2007. From August 2005 until July 2007, Mr. Turbidy served as President and Chief Executive Officer of Trico Marine Services, Inc., an international marine support and transportation company. From August 2003 until August 2005, he served as Vice President and Chief Financial Officer of Trico. From November 2000 until May 2002, Mr. Turbidy served as a director in the Investment Banking Department of Credit Suisse First Boston. From 1991 until November 2000, he held various positions in investment banking covering the U.S. energy industry with a focus on oilfield services and equipment, exploration and production and refining. Mr. Turbidy was a Director of Grey Wolf, Inc. from December 2005 to December 2008, prior to its acquisition by Precision Drilling Trust and his subsequent appointment as a director of Precision Drilling Corporation in December 2008. Mr. Turbidy serves as a director of a number of private energy companies, including a European exploration and production company concentrating on the Southern North Sea; a U.S. based jackup rig operator; a European based exploration and production company focused on onshore Europe; a natural gas company focused on the Marcellus; and a U.S. based exploration and production company with assets in the Niobrara and the Eagle Ford.

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 Vice President and General Counsel since 2008 and Corporate Secretary since 2009. 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.

Kenneth J. Haddad of Houston, Texas, U.S.A. is Vice President of Business Development since 2008. Prior to that, he was a Director of Merger & 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. From 2000 to 2005, Mr. McNally was an Investment Banker at Simmons and Company.

Darren J. Ruhr of Calgary, Alberta, Canada is Vice President of Corporate Services and has held that position since 2009. Prior to that, Mr. Ruhr was Vice President of Corporate Services & Corporate Secretary from 2005 to 2009, Director, Information Technology, Real Estate & Travel, from 2003 to 2005 and Director, Information Technology, from 2000 to 2003.

Gene C. Stahl of Houston, Texas, U.S.A. is President of Drilling Operations since 2008. Prior to that, he was President and Chief Operating Officer since 2005, Vice President, of Precision Rentals from 2003 to 2005 and General Manager of Ducharme Rentals/Big D Rentals from 2002 to 2003.

Douglas J. Strong of Calgary, Alberta, Canada was appointed President of Completion and Production Services in 2010. Previously, Mr. Strong was Chief Financial Officer from 2005 to 2010, Chief Financial Officer of Precision Diversified Services Ltd. from 2001 to 2005 and Group Controller from 2001 to 2005.

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 Compensation Committee.

(4) Member of the Corporate Governance and Nominating Committee.

(5) Mr. Dunn will not be standing for re-election as a Director at the next annual meeting.

(6) Mr. Felesky resigned as Director effective February 14, 2011.

As at March 1, 2011, the Directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly, or controlled or directed over 1,342,009 Common Shares, or approximately 0.5% of the issued and outstanding Common Shares, which aggregate number includes a total of 338,291 Common Shares credited to the accounts of non-management Directors pursuant to a deferred share unit plan approved by Shareholders on May 11, 2010.

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.

Mr. Turbidy was Chief Financial Officer of Trico Marine Services, Inc. (" **Trico**") from August 2003 to August 2005. Trico filed a "prepackaged" chapter 11 financial reorganization case on December 24, 2004, to restructure and substantially reduce Trico's debt, strengthen its balance sheet and increase its liquidity. Trico filed the prepackaged bankruptcy case in the United States Bankruptcy Court for the Southern District of New York.

At the request of the shareholders and with the consent of the majority of creditors, Mr. Gibson became the sole director of 358427 Alberta Ltd. ("**358427**") in 1995. 358427 was insolvent at the time of Mr. Gibson's appointment as director. Mr. 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. 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 and Terms of Reference (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 Multilateral 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 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 2010 and 2009:

Stated in thousands of Canadian dollars	**Years ended December 31, 2010**	**2009**
Audit fees	$ 2,038	$ 2,308
Audit-related fees	-	-
Tax fees	528	515
All other fees	178	181
Total	**$ 2,744**	**$ 3,004**

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 2009 or 2010.

Tax fees consist of fees for tax compliance services, tax advice and tax planning. During fiscal 2010 and 2009 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, and advice as to the application of International Financial Reporting Standards.

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 Arrangement Agreement

The arrangement agreement provided for the implementation of the Plan of Arrangement pursuant to section 193 of the *Business Corporations Act* (Alberta) and, among other things, certain representations, warranties and covenants of the parties and certain indemnities among the parties to the Arrangement.

The 2010 Revolving Credit Facility, the 6.625% Note Indenture and Registration Rights Agreement and the 6.50% Note Indenture

See "Description of Capital Structure — Material Debt".

Shareholder Rights Plan Agreement

See "Description of Capital Structure — Description of Common Shares — Shareholder Rights Plan".

Copies of the material agreements described above, other than the 2010 Revolving Credit 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, 2010. In connection with the audit of the Corporation's annual financial statements for the year ended December 31, 2010, 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 U.S. 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, 2010, 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, 2010, 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 Canadian generally accepted accounting principles ("**Canadian GAAP**") including reconciliation to United States generally accepted accounting principles ("**United States GAAP**").

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, 2010, the Corporation did maintain effective internal control over financial reporting.

During the fiscal year ended December 31, 2010, 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.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Precision is 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. IFRS compliant comparative financial information for one year is required on the effective date.

Precision has substantially completed its IFRS conversion plan and has adopted IFRS effective January 1, 2011. Training has been completed to employees impacted by the transition to IFRS.

Precision's project plan consisted of the following key activities: identification and assessment of differences between Canadian GAAP and IFRS; identification of key personnel required for design and implementation of the differences and accounting policies; selection of new and revision of existing accounting policies to meet the requirements under IFRS; design of information systems business processes to facilitate transition to IFRS and future compliance with IFRS; review of the internal control environment and modification to controls as needed; review of compensation plans and debt covenants; and implementation of changes to information systems to facilitate dual reporting of financial results for the transition year of 2010.

Precision has completed the above project activities. Transition to IFRS is not expected to materially impact debt covenants or affect cash flows. Except for changes to management reports, no significant changes are expected in internal controls over financial reporting or disclosure controls.

Precision will present financial statements for the first time in accordance with IFRS for the interim period ending March 31, 2011. Precision has completed an assessment of the impact of IFRS transition on its opening IFRS balance sheet which is being reviewed by its external auditors. Accordingly, the information being presented herein may differ from Precision's first IFRS compliant financial statements for the period ending March 31, 2011. See "Risk Factors — Precision will be required to adopt International Financial Reporting Standards".

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, 2010 forms part of the Corporation's 2010 Annual Report and is incorporated by reference in this Annual Information Form. Management's Discussion and Analysis appears on pages 2 to 47 of the 2010 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 Vice President, General Counsel and Corporate Secretary, at the office of the Corporation at 4200, 150 — 6th Avenue S.W., Calgary, Alberta, Canada T2P 3Y7; 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 and Special Meeting of Shareholders to be held on May 11, 2011, 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, 2010 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. As natural gas is most economically transported in its gaseous state via pipeline, its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. 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. Crude oil and natural gas prices are quite volatile, which accounts for much of the cyclical nature of the oilfield services business.

Worldwide military, political and economic events, including 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 the fair market value of Precision's rig fleet which in turn could trigger a write down for accounting purposes, affect Precision's ability to retain skilled rig personnel and Precision's ability to obtain access to capital to finance and grow Precision's businesses. There can be no assurance that the future level of demand for Precision's services or future conditions in the oil and natural gas and oilfield services industries will not decline.

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 demand for drilling rigs short-lived.

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 newly-refurbished rigs. Precision expects that more of these newer rigs may in the future enter market areas where Precision operates. The addition of these drilling rigs has and could continue to intensify price competition and possibly reduce customer demand for term drilling contracts, which would have an adverse effect on Precision's revenues, cash flows and earnings.

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 increased as a result of overall stronger demand for land drilling services until mid-2008 then decreased significantly due to the downturn in the oil and natural gas industry. Demand for qualified rig personnel has since increased as industry conditions improve and as new and refurbished rigs are brought into service by Precision and its competitors. Increased demand has led 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.

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.

Unexpected cost overruns on turnkey drilling jobs could adversely affect Precision's revenues.

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 revenue. 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 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.

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 trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including hydraulic fracturing, the generation and disposal of wastes and the use and handling of chemical substances. These restrictions and limitations have increased operating costs for both Precision and its customers.

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. 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, including a lower demand for hydrocarbons and for Precision's services. 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.

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.

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. While alternate suppliers exist for most of these components, materials, equipment, parts and services, cost increases, delays in delivery due to high activity or other unforeseen circumstances may be experienced. 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. However, if the current or alternate suppliers are unable to provide or deliver the necessary components, materials, equipment, parts and services, 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.

New technology could place Precision at a disadvantage versus competitors.

Complex drilling programs for the exploration and development of remaining conventional and unconventional oil and natural gas reserves in North America 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.

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 drilling rig, directional drilling, camp and catering, service rig, snubbing, equipment rental, wastewater treatment, procurement and distribution and manufacturing businesses and activities in Canada and Precision's drilling rig, directional drilling, turnkey drilling, drilling camp, equipment rental, procurement and distribution and manufacturing businesses and activities in the United States are directly affected by fluctuations in exploration, development and production activity carried on by Precision's customers which, in turn, is dictated by numerous factors including 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 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.

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 $350 million, including the estimated amount pertaining to the long-term income tax recoverable on the balance sheet of $58 million. On February 9, 2011, Precision received a notice of reassessment from Canada Revenue Agency for $216 million relating to a transaction that occurred in the 2005 tax year, which is included in the $350 million noted above. Precision will appeal this reassessment as it vigorously defends what it believes to be a correct filing position related to this transaction. The appeal process required Precision to pay security of approximately $108 million. See "Recent Developments — Tax Assessment".

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 6.625% Note Indenture, the 2010 Revolving Credit Facility, the 6.50% Senior Note Indenture and other debt agreements Precision enters into in the future. Future borrowings may not be available to Precision under the 2010 Revolving Credit 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 2010 Revolving Credit Facility contains restrictive covenants.

The 2010 Revolving Credit Facility contains a number of covenants that, among other things, restrict Precision's and its subsidiaries' ability to conduct certain activities. In addition, under the 2010 Revolving Credit Facility, Precision will be required to satisfy and maintain certain financial ratio tests. 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 2010 Revolving Credit Facility. Upon the occurrence of an event of default under the 2010 Revolving Credit Facilities, the lenders could elect to declare all amounts outstanding under the 2010 Revolving Credit Facility 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 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.

Precisions operations are subject to currency translation risk, which could cause results to fluctuate significantly from period to period.

Precision's operations in the United States and Mexico have revenue, expenses, assets and liabilities denominated in United States dollars. As a result, Precision's income statement, balance sheet and statement of cash flow are impacted by changes in exchange rates between Canadian and United States dollars.

- *Translation of United States Subsidiaries.* Precision's United States and Mexico operations are considered self-sustaining operations and are translated into Canadian dollars using the current rate method. Under this method, the assets and liabilities of Precision's operations in the United States and Mexico are recorded in the consolidated financial statements at the exchange rate in effect at the balance sheet dates and the unrealized gains and losses are included in other comprehensive income, a component of shareholders' equity. As a result, changes in the Canadian to United States dollar exchange rates could materially increase or decrease Precision's United States dollar denominated net assets on consolidation which would increase or decrease, as applicable, shareholders' equity. In addition, under certain circumstances Canadian GAAP requires foreign exchange gains and losses that are accumulated in other comprehensive income to be recorded as a foreign exchange gain or loss in the statement of earnings. Precision's United States and Mexico operations generate revenue and incur expenses in United States dollars and the United States dollar based earnings are converted into Canadian dollars for purposes of financial statement consolidation and reporting. The conversion of the United States dollar based revenue and expenses to a Canadian dollar basis does not result in a foreign exchange gain or loss but does result in lower or higher net earnings from United States and Mexico operations 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 United States and Mexico 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 self-sustaining 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 United States and Mexico operations are transacted in United States dollars. 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 Canadian operations' 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 2010 Revolving Credit Facility, the 6.625% Senior Notes and the 6.50% Senior Notes) or to undertake acquisitions or other business combination transactions. Any volatility or uncertainty in the credit markets in the future 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. See "Recent Developments — Repayment of the 10% Senior Note".

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. Volatility in the credit markets in the future 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 volatility or uncertainty in the capital markets in the future, 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. Precision has experienced an increase in the demand for its services since the second half of 2009 in correlation with the significant upward trend in oil over the same period. See "General Development of the Business — Three-Year History".

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 will be required to adopt International Financial Reporting Standards.

Precision is required to report its financial results in accordance with IFRS from January 1, 2011, the changeover date set by Accounting Standards Board. IFRS compliant comparative financial information for one year is required on the effective date. Precision has substantially completed its IFRS conversion plan and has adopted IFRS effective January 1, 2011. Precision has identified and assessed the differences between Canadian GAAP and IFRS and determined that transition to IFRS is not expected to materially impact debt covenants or affect cash flows. Except for changes to management reports, no significant changes are expected in internal controls over financial reporting or disclosure controls. Precision will present financial statements for the first time in accordance with IFRS for the interim period ending March 31, 2011. Accordingly, the information presented in the Annual Report of the Corporation may differ from Precision's first IFRS compliant financial statements for the period ending March 31, 2011. No assurance can be provided that the adoption of IFRS will not adversely affect Precision's reported financial results. See "Transition to International Financial Reporting Standards".

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 nonpublic 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 Canadian GAAP, which differs in some respects from United States GAAP. For a discussion of the principal differences between United States GAAP and Canadian GAAP as they relate to Precision's financial statements, see Note 20 to Precision's audited consolidated financial statements for the years ended December 31, 2010, 2009 and 2008.

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 2010 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 including under the headings "General Development of the Business", "Description of the Business of Precision" and "Risk Factors" and include, but are not limited to statements with respect to: performance of the oil and natural gas industry, including oil and natural gas commodity prices and supply and demand; expansion, consolidation and other development trends of the oil and natural gas industry; demand for and status of drilling rigs and other equipment in the oil and natural gas industry; costs and financial trends for companies operating in the oil and natural gas industry; world population and energy consumption trends; Precision's business strategy, including the 2011 strategy and outlook for the Corporation's business segments; expansion and growth of Precision's business and operations, including diversification of Precision's earnings base, safety and operating performance, the size and capabilities of Precision's drilling and service rig fleet, Precision's market share and Precision's position in the markets in which it operates; the opportunities stemming from a focus on global contract drilling through United States expansion; international diversification opportunities and complementary product line expansion; the impact of shale gas drilling in Canada and the United States; that new drilling rigs are expected to be contracted with customers before completion; the number of rigs under daywork term contracts in Canada, the United States and Mexico; the potential rebound in land drilling activity; that unconventional drilling applications will require high performance drilling rigs; the demand for Precision's products and services; Precision's management strategy; labour shortages; climatic conditions; seasonality; the maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies and tax liabilities; statements regarding IFRS; expected payments pursuant to contractual obligations; the prospective impact of current or anticipated regulatory changes; that planned asset growth will generally be financed through existing debt facilities or cash retained from continuing operations; financing strategy and compliance with debt covenants; potential downgrades to credit ratings; credit risks; and other such matters.

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: the impact of general economic conditions in Canada and the United States; world energy prices and government policies; industry conditions, including the adoption of new environmental, taxation and other laws and regulations and changes in how they are interpreted and enforced; the current global financial crisis and the dislocation in the credit markets; 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; the impact of initiatives by the Organization of Petroleum Exporting Countries and other major petroleum exporting countries; the ability of oil and natural gas companies to access external sources of debt and equity capital; the effect of weather conditions on operations and facilities; the existence of operating risks inherent in contract drilling, well servicing and ancillary oilfield services; the volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; consolidation among Precision's customers; risks associated with technology; political uncertainty, including risks of war, hostilities, civil insurrection, instability or acts of terrorism; liabilities under laws and regulations protecting the environment; the impact of purchase accounting; expected outcomes of litigation, claims and disputes and their expected effects on the Corporation's financial condition and results of operations; difficulties and delays in achieving synergies and cost savings; the lack of availability of qualified personnel or management; credit risks; increased costs of operations, including costs of equipment; future capital expenditures and refurbishment, repair and upgrade costs; expected completion times for new equipment manufacture and refurbishment and upgrade projects; sufficiency of funds for required capital expenditures, working capital and debt service; the Corporation's ability to enter into and the terms of future contracts; the adequacy of sources of liquidity; the inability to carry out plans and strategies as expected; other unforeseen conditions which could impact the use of services supplied by Precision; fluctuations in interest rates; stock market

volatility; safety performance; foreign operations; foreign currency exposure; dependence on third party suppliers; opportunities available to or pursued by the Corporation; and other factors, many of which are beyond the Corporation's control.

These 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, Precision Drilling 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", "Super Single" and "Super Triple" are registered trademarks of Precision Drilling Corporation in Canada. "High Performance, High Value" is a trademark of Precision Drilling Corporation, registration of which is pending in Canada and 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 AND TERMS OF REFERENCE

General

The purpose of this document is to establish the terms of reference of the Audit Committee (the "Committee") of Precision Drilling Corporation ("Precision" or 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.

It is critical that the external audit function, a mechanism that promotes reliable, accurate and clear financial reporting to Shareholders of the Corporation, is working effectively and efficiently, and that financial information is being relayed to the Board of Directors, in a timely fashion. The activities of the Committee are fundamental to the process.

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").

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 requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Corporation's shares are listed for trading. At least one of the members of the Committee must also have "accounting or related management financial expertise" as such term is defined from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Corporation's shares are listed for trading.

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

(b) Appointment and Replacement of Committee Members

Each member of the Committee shall serve at the pleasure of the Board of Directors. Any member of the Committee may be removed or replaced at any time by the Board of Directors, and shall automatically cease to be a member of the Committee upon ceasing to be a director of the Corporation. The Board of Directors may fill vacancies on the Committee by appointment from among its number. The Board of Directors shall fill any vacancy if the membership of the Committee is less than three directors 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 and Terms of Reference

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

(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

Report, through the Chair of the Committee, to the Board of Directors following each meeting of the Committee, including an outline of the nature of discussions, major decisions reached by the Committee, and its activities and compliance with this Charter and Terms of Reference.

(g) Committee Chair Responsibilities

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

(h) Other Authority

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

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

Purpose

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

- the integrity of financial reporting to the holders of shares of the Corporation ("Shareholders") and the investment community;
- the integrity of the financial reporting process, including the 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;
- 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, internal audit function and its external auditor; and
- any other matter specifically delegated to the Committee by the Board of Directors.

Committee Responsibilities

The Committee shall:

- review the interim and annual 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;
- report, through the Chair of the Committee, to the Board of Directors following each meeting of the Committee, including an outline of the nature of discussions, major decisions reached by the Committee, and its activities and compliance with this Charter and Terms of Reference;
- approve the terms of the external auditor's engagement letter as agreed between the external auditor and financial management of the Corporation, and the compensation to be paid by the Corporation to the external auditor;
- review the reasons for any proposed change in the external auditor which is not initiated by the Committee or the Board of Directors and any other significant issues related to the change, including the response of the incumbent external auditor, and enquire as to the qualifications of the proposed external auditor before making its recommendations to the Board of Directors;
- oversee 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 the internal or the external auditor regarding financial reporting or the application of any accounting principles or practices;
- require the external auditor and internal auditor to report directly to the Committee;
- provide the external auditor with notice of every meeting of the Committee and, at the expense of the Corporation, the opportunity to attend and be heard thereat, and if so requested by a member of the Committee, require the external auditor to attend every meeting of the Committee held during the term of the office of the external auditor. The external auditor of the Corporation or any member of the Committee may call a meeting of the Committee;
- pre-approve all permitted non-audit services to the Corporation or any affiliated entities by the external auditor or any of their affiliates subject to any de minimus exception allowed by applicable law. The Committee may delegate to one or more designated members of the Committee the authority to pre-approve non-audit services, however any non-audit services that have been pre-approved by any such delegate of the Committee must be presented to the Committee at its first scheduled meeting following such pre-approval;
- review the disclosure with respect to its pre-approval of audit and non-audit services provided by the external auditors;
- review and discuss with management and the external auditor, as applicable, (a) all critical accounting policies 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 Generally Accepted Accounting Principles ("GAAP") 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; (h) any reserves, accruals, provisions or estimates that may have a significant effect upon the financial statements of the Corporation; (i) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of the Corporation; and (j) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles;

- review earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" "non-GAAP" information) as well as financial information and earnings guidance provided to analysts and rating agencies, it being understood that such review may in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made);
- review with the external auditor and management the general audit approach and scope of proposed audits of the financial statements of the 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 for the audits;
- 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 engagement report of the external auditor before the release of interim financial statements of the Corporation;
- 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;
- 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, including a review and evaluation of the lead partner 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 periodically as required by the Sarbanes-Oxley Act of 2002, and further consider rotation of the external auditor's firm itself;
- discuss with management and the external auditors any accounting adjustments that were noted or proposed by the internal or external auditors 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 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 periodically with management and with the internal 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;
- cause to be prepared any report required by law, regulations or stock exchange requirement to be included in the Corporation's periodic reports;
- meet at least four times a year on a quarterly basis or more frequently as circumstances require, with the Chief Financial Officer of the Corporation, the head of the internal audit function of the Corporation, if other than the Chief Financial Officer, and the external auditor in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately;
- meet in separate, non-management, in-camera sessions at each regularly scheduled meeting;
- meet in separate non-management, closed sessions with any other internal personnel or outside advisors, as necessary or appropriate;
- review annually the Corporation's insurance programs and pension plans, not including the Directors and Officers insurance program;
- review the results of the annual external audit, including the audit report to the 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 and evaluate the scope, risk assessment, and nature of the internal audit plan and any subsequent changes;
- consider and review the following issues with management and the head of the internal audit group:
    - significant findings of the internal audit group as well as management's response to them;
    - any difficulties encountered in the course of their internal audits, including any restrictions on the scope of their work or access to required information;
    - the internal auditing budget and staffing;
    - the internal Audit Services Charter; and
    - compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing;*
- approve the appointment, replacement or dismissal of the head of the internal audit group; and
- direct the head of the internal audit group to review any specific areas the Committee deems necessary.

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

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

Limitation of Committee's Role

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

The Committee, the Chair of the Committee and any Committee members identified as having accounting or related financial expertise are members of the Board of Directors, appointed to the Committee to provide broad oversight of the financial, risk and control-related activities of the Corporation, and 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.

Approved effective as of March 9, 2011.



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 on May 11, 2010 the Trust converted from an open-ended income trust to a corporation, "Precision Drilling Corporation". Precision Drilling Corporation 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. All references to shares and shareholders in this Management Discussion and Analysis ("MD&A") pertain to common shares and common shareholders subsequent to the conversion and units and unitholders prior to the conversion.

This MD&A, prepared as at March 15, 2011, 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 Drilling Corporation (the "Corporation" or "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. The effects on the Consolidated Financial Statements arising from differences in generally accepted accounting principles ("GAAP") between Canada and the United States are described in Note 20 to the Consolidated Financial Statements. Additional information relating to the Corporation, including the Annual Information Form, has been filed with SEDAR and is available at www.sedar.com.

Cautionary Statement Regarding Forward-looking Information and Statements

This Annual Report and MD&A 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 Report and Management's Discussion and Analysis.

Forward-looking information and statements include, but are not limited to, statements with respect to: 2011 expected cash provided by continuing operations; 2011 capital expenditures, including the amount and nature thereof; the performance of the oil and natural gas industry, including oil and natural gas commodity prices and supply and demand; the rate of development and adoption of alternate energy sources to meet global energy requirements; the development and adoption of new drilling and completion techniques; expansion, consolidation and other development trends of the oil and natural gas industry; demand for and status of drilling rigs and other equipment in the oil and natural gas industry; costs and financial trends for companies operating in the oil and natural gas industry; the effect of capital overbuild in the drilling industry in relation to current levels of demand; energy consumption trends; Precision's business strategy, including the 2011 strategy, growth plans and outlook for Precision's business segments; expansion and growth of Precision's business and operations, including diversification of Precision's earnings base; safety and operating performance; the size and capabilities of Precision's drilling and service rig fleet, Precision's market share and its position in the markets in which it operates; demand for Precision's products and services; Precision's management strategy; labour shortages and the effect of wage increases; climatic conditions; conditions in the credit markets and access to additional financing; the maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies and tax liabilities; expected payments pursuant to contractual obligations; the prospective impact of recent or anticipated regulatory changes; financing strategy; credit risks; the impact of changes in currency exchange rates; the prospective impact of Precision's recent transition to International Financial Reporting Standards; and other such matters.

All such forward-looking information and statements are based on certain assumptions and analyses made by Precision in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors Precision 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: the impact of general economic conditions in Canada and the United States; world energy prices and government policies; the availability of credit and equity globally to both Precision and the oil and gas companies that are its customers; consumer confidence and the duration of any recessionary period; industry conditions, including capital spending decisions; priority placed on high-performance rigs in resource plays; the adoption of new environmental, taxation and other laws and regulations and changes in how they are interpreted and enforced; the impact of initiatives by the Organization of the Petroleum Exporting Countries and other major petroleum exporting countries; the effect of weather conditions on operations and facilities; fluctuations in the demand for well servicing, contract drilling and ancillary oilfield services; the existence of operating risks inherent in well servicing, contract drilling and ancillary oilfield services; volatility of oil and natural gas prices; oil and natural gas product supply and demand; fluctuations in the level of oil and natural gas exploration and development activities; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; Precision's ability to enter into, and the terms of, future contracts; consolidation among Precision's customers; risks associated with technology; political uncertainty, including risks of war, hostilities, civil insurrection, instability or acts of terrorism; the lack of availability of qualified personnel or management; credit risks; increased costs of operations, including costs of equipment; fluctuations in interest rates; stock market volatility; safety performance; foreign operations; foreign currency exposure; dependence on third party suppliers; opportunities available to or pursued by Precision; and other factors, many of which are beyond Precision's control.

These 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, Precision Drilling 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 Report and MD&A are expressly qualified by this cautionary statement.



SELECT FINANCIAL AND OPERATING INFORMATION

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

Years ended December 31,	2010	% Increase (Decrease)	2009	% Increase (Decrease)	2008	% Increase (Decrease)
Revenue	**$1,429,653**	**19.4**	$1,197,446	8.7	$1,101,891	9.2
EBITDA (1)	**435,383**	**7.0**	407,001	(6.8)	436,536	(0.1)
Net earnings	**62,091**	**(61.6)**	161,703	(46.6)	302,730	(12.4)
Cash provided by operations	**305,395**	**(39.5)**	504,729	46.8	343,910	(29.0)
Capital spending: (2)						
Upgrade capital expenditures	**104,722**	**245.6**	30,303	(49.0)	59,454	29.3
Expansion capital expenditures	**71,179**	**(56.4)**	163,132	(4.1)	170,125	20.7
Proceeds on sale of assets	**(12,256)**	**(23.3)**	(15,978)	53.0	(10,440)	81.0
Net capital spending	**163,645**	**(7.8)**	177,457	(19.0)	219,139	20.9
Earnings per share:						
Basic	**0.23**	**(64.6)**	0.65	(70.9)	2.23	(13.2)
Diluted	**$ 0.22**	**(65.1)**	$ 0.63	(71.7)	$ 2.23	(13.2)
Drilling rig utilization days:						
Canada	**31,176**	**46.9**	21,229	(38.4)	34,488	(0.2)
United States	**32,450**	**43.1**	22,672	183.2	8,006	281.6
International	**602**	**(15.2)**	710	346.5	159	n/m
Service rig operating hours: (3)						
Canada	**294,126**	**33.9**	219,649	(39.2)	361,367	(4.9)

(1) EBITDA is non-GAAP measure and is defined as earnings before interest, taxes, loss on asset decommissioning, depreciation and amortization and foreign exchange. See page 45.

(2) Excludes acquisitions.

(3) Now includes snubbing services. Comparative numbers have been restated to reflect this change.

n/m — calculation not meaningful.

Financial Position and Ratios

(Stated in thousands of Canadian dollars, except ratios)

Years ended December 31,	2010	2009	2008
Working capital	**$ 460,149**	$ 320,860	$ 345,329
Working capital ratio	**3.1**	3.5	2.0
Long-term debt (1)	**$ 804,494**	$ 748,725	$1,368,349
Total long-term financial liabilities	**$ 834,813**	$ 775,418	$1,399,300
Total assets	**$4,296,788**	$4,191,713	$4,833,702
Enterprise value (2)	**$2,990,937**	$2,536,477	$2,636,170
Long-term debt to long-term debt plus equity (1)	**0.24**	0.22	0.37
Long-term debt to cash provided by operations (1)	**2.63**	1.48	3.98
Long-term debt to enterprise value (1)	**0.27**	0.30	0.52

(1) Excludes current portion of long-term debt which is included in working capital and is net of unamortized debt issue costs.

(2) Share price as listed on the Toronto Stock Exchange as at December 31 multiplied by the number of shares outstanding plus long-term debt minus working capital. See page 22.

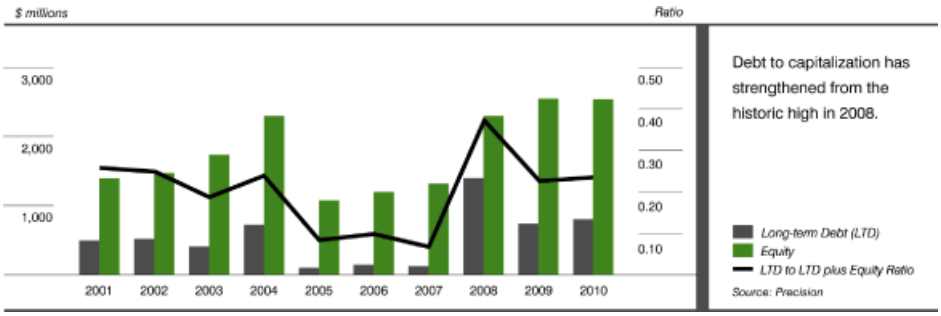
2010 OBJECTIVES

Precision entered 2010 with four primary objectives:

1. Continue to deliver the High Performance, High Value level of 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;
3. Strengthen the balance sheet with improved financial liquidity; and
4. Position the Corporation for future growth.

In response to these objectives Precision:

1. Upgraded 12 drilling rigs from Tier 2 or Tier 3 to Tier 1 and increased our capacity to provide drilling rigs capable of drilling horizontal or highly deviated wells by adding 19 top drives. Precision's engineering group works with the customer in design modification to fit their complex drilling needs and requirements.
2. Undertook our 2010 new build rig program which included nine rigs, all of which are under long-term contracts. Six of those rigs are complete and working and the remaining three are projected to be completed and working by the end of the second quarter of 2011. Precision's 2011 new build rig program currently stands at six rigs, all of which are contracted and expected to be completed and working by the end of 2011. Total capital spending for 2010 was $176 million of which $71 million related to expansion initiatives. For 2011, the Corporation currently estimates $444 million in capital expenditures, including $193 million of expansion capital.
3. Refinanced its long-term debt in the fourth quarter of 2010 with the issuance of US$650 million of senior unsecured notes due in 2020. These unsecured notes bear interest at 6.625% per annum. The net proceeds from the notes 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 notes offering, Precision terminated its then existing senior secured credit facilities and entered into a new US$550 million senior secured revolving credit facility expiring in 2013. Subsequent to year end Precision repaid the 10% senior unsecured notes ("10% Senior Notes") and issued $200 million of Canadian dollar senior unsecured notes bearing interest at a rate of 6.5% per annum which will result in annual interest rate savings, removal of restrictive covenants and improved financial flexibility. An improved balance sheet increases financial flexibility and ultimately provides the financial liquidity to be able to continue to seize opportunities to grow the Corporation. Precision plans on pursuing both organic growth and acquisition opportunities in the North American drilling, directional drilling and international drilling arena during 2011.
4. Converted from a open-ended income trust to a growth-oriented corporation for reasons which included:
    - A belief that a corporate structure was important for future attraction and retention of worldwide investors;
    - A corporate structure removed the restriction on non-resident ownership;
    - On October 31, 2006, the Canadian Minister of Finance announced the Specified Investment Flow Through Trust ("SIFT") income and distribution tax which effectively eliminated the benefits of Precision's income trust structure by introducing additional income taxes to be imposed on trusts (generally) for taxation years commencing January 1, 2011; and
    - The conversion removed the growth limitations imposed by the SIFT legislation.



2010 was a year of recovery for the energy sector. The global banking and general economic distress that started in 2008 and continued into 2009, significantly reduced oil and gas commodity prices resulting in reduced spending by Precision's customers and led to the sharpest decline in drilling and service activity since the early 1980's. Moderate improvements that began in late 2009 continued into 2010 in particular as it relates to drilling for oil and liquids rich natural gas. The demand for energy is rising as the global economies start to improve. There is increased liquidity in the capital markets and higher oil commodity prices are improving cash flows for exploration and production companies.

VISION AND STRATEGY

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 drilling and servicing customer requirements in a faster and safer manner with consistent results which in time reduces their overall cost and risk. Precision's unique combination of superior people, size, drilling technology, vertical integration and superior business systems provides a formidable competitive advantage in the Canadian and United States markets and positions the company for international expansion.

Precision's strategy is aligned for and dedicated to growth. The organic growth into the United States in 2007 and 2008 was the first step in its expansion outside of Canada. This was followed by the acquisition of Grey Wolf, Inc. ("Grey Wolf") in late 2008; the improvement of the balance sheet and debt restructuring during 2009 and 2010; and the conversion to a corporation in 2010. All of these steps were a continuous process of Precision's growth plans. Precision's priority for 2011 is to seize market growth opportunities. Those opportunities are expected to come in the form of new build Super Series rigs, existing rig upgrades, international deployment of assets and the potential acquisition of additional assets. Precision's corporate and competitive growth strategies are designed to optimize resource allocation and differentiate Precision from the competition, thereby generating value for investors.

Precision also expects that during 2011 it will be able to generate sufficient cash flow from operations to allow it to have the financial flexibility to manage its growth plan going forward. This flexibility is expected to be in the form of cash on the balance sheet as well as access to existing debt facilities. Precision is very cognizant of the cyclicality of the oilfield services industry and will be prudent in its deployment of financial resources.

In terms of business segments, Precision sees diversity and growth for its Contract Drilling Services' land drilling rig fleet. The long term outlook for the Completion and Production Services' service rig fleet has improved with the increased service activity but in the short term there is excess equipment capacity in the Western Canada Sedimentary Basin ("WCSB") and throughout North America. However, with challenge comes opportunity to consolidate less efficient competitors and to seize opportunities to expand services including rig-less completion and production work associated with many horizontal wells.

During 2011, Precision will continue to build on its High Performance, High Value vision. Further improvements in safety, assets and systems are planned, as customers demand ever increasing performance as they develop the technically challenging unconventional resource plays.

OUTLOOK

Precision has a strong portfolio of long-term customer contracts that provides a base level of activity and revenue. Precision has an average of approximately 110 rigs and 93 rigs committed under term contracts in North America in the first and second quarters of 2011, respectively. For 2011, based on the current position, Precision has an average of 33 rigs in Canada under term contract, 50 in the United States and two in Mexico. For 2012, Precision currently has term contracts in place for an average of 33 rigs, with 19 in Canada and 14 in the United States and Mexico. In Canada, term contracted rigs generate from 200 to 250 utilization days per rig year due to the seasonal nature of well access, whereas in the United States they generate about 350 utilization days per rig year in most regions.

During the fourth quarter, Precision entered into new contracts with the same major service provider for the two 3,000 horsepower rigs that have been working in Mexico for the past several years. These term contracts are for approximately 30 months and expire in early 2013.

Capital expenditures are expected to be approximately $445 million for 2011 and include $121 million for sustaining and infrastructure expenditures and are based upon currently anticipated activity levels for 2011. Additionally, $173 million is slated for expansion capital in the Contract Drilling segment and includes the cost to complete the remaining five of the nine new build rigs from the 2010 capital program and an anticipated six additional new rig builds for 2011 while $21 million of expansion capital is expected to be spent on the Completion and Production Services segment. The total capital expenditures also include $130 million to upgrade eight to twelve rigs in 2011 and to purchase long lead time items for the Corporation's capital inventory. These long lead time items include top drives, masts and engines, that can be used for North American or international new build opportunities and rig tier upgrades. Precision expects that the $445 million will be split $393 million in the Contract Drilling segment and $52 million in the Completion and Production Services segment.

In 2010 the industry experienced substantially higher drilling activity in Canada and the United States than the prior year. The demand for energy is rising as global economies continue to improve. There is also increased liquidity in the capital markets as well as higher oil commodity prices which are providing Precision's customers' liquidity to increase drilling programs. The drilling sector in both Canada and the United States is experiencing a period of year-over-year improvements in utilization. With these year-over-year improvements in rig utilization, there has been a recent improvement in spot market dayrates charged to customers in Canada. The improvements in dayrates in Canada are expected to hold and United States average rates are expected to continue to modestly improve.

Due to the increased demand for drilling rigs, Precision is experiencing increased demand for rig personnel. On October 1, 2010 a wage increase for Canadian rig based personnel went into effect. Precision is also seeing this increase in demand for rig personnel in the United States which resulted in a December wage increase. Precision expects to recoup the majority of these wage increases through higher dayrates to our customers.

Natural gas production in the United States has remained strong despite reduced drilling activity over the last two years. However with the recent cold weather in North America, United States natural gas storage levels as at the end of February 2011 were 3% below the five-year average and 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 has been strong. The oil rig count as at March 11, 2011 is 77% higher in the United States and 58% higher in Canada than they were a year ago. Precision has more equipment working in oil related plays than at any time in the last 20 years; however, natural gas oriented drilling remains a critical element of Precision's business with 30 to 40% of its current active rig count drilling for dry natural gas targets.

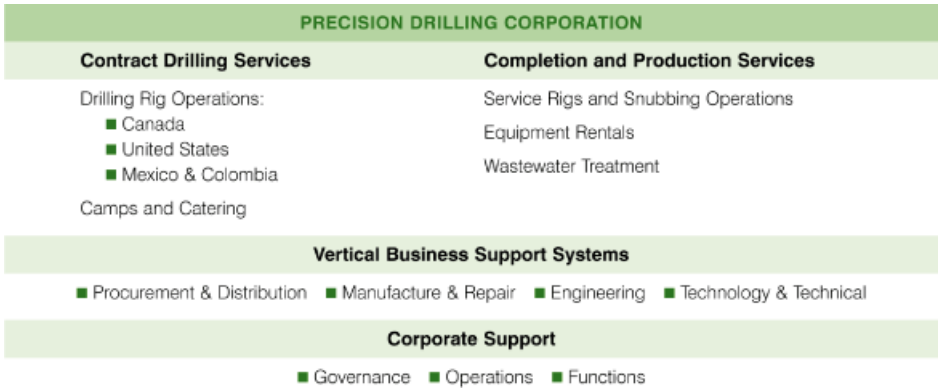
With high storage levels, consistent production and the view that North America has an oversupply of natural gas, gas prices have remained at relatively low levels. To date, there have been some changes in customers' natural gas drilling plans which have resulted in a decline in the rig count targeting 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. With the current strong demand for oil and liquids rich natural gas drilling, Precision believes further reductions in gas directed drilling would continue to be mostly offset by increases in oil and liquids rich natural gas drilling.

Despite near term challenges, the future of the global oil and gas industry remains promising. For Precision, 2011 represents an opportunity to demonstrate our value to customers through delivery of High Performance, High Value services that deliver low customer well costs 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 will impact 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 provider of safe, High Performance, High Value energy services to the North American oil and gas industry. Precision provides customers with access to an extensive fleet of contract drilling rigs, service rigs, camps, snubbing units, wastewater treatment units and a wide array of rental equipment 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 operates in an inherently challenging cyclical industry; the energy services business. There are a number of business risks associated with the volatility of an industry that is dependent on global oil economics and the more regional energy source, natural gas. 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 dependent on high quality, trained personnel dependant. This combination provides a level of service to customers that determines a company's brand and reputation. The essential elements of service include efficient operations, safety and environmental considerations. These factors in combination lead to operating proficiency and profitably throughout the business cycle. A more active industry that recognizes performance will 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 order to assess risk factors that affect Precision's long-term strategy and financial performance.

FUNDAMENTALS OF THE ENERGY SERVICES INDUSTRY

Management believes that hydrocarbon energy sources, oil and natural gas, are low cost energy sources for consumers and the need to replace existing production levels will remain for decades. Alternate energy sources will play an increasingly important role in meeting the world's future energy needs, 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 greater technical expertise. The gradual steady shift in the drilling of more horizontal wells and fewer vertical wells is evidence of this trend.

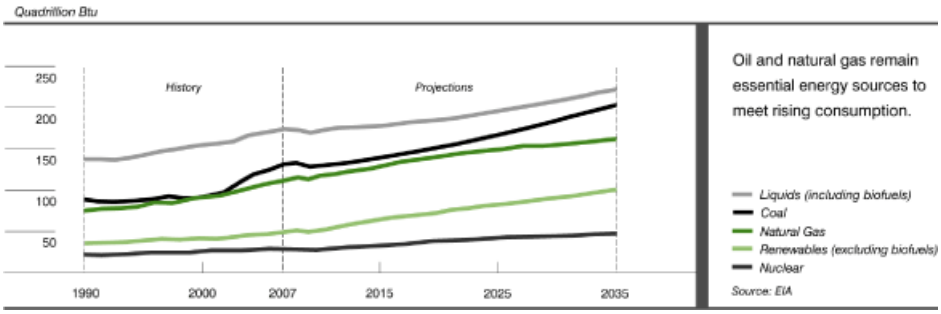
Multi-stage horizontal completion techniques are re-opening many basins to renewed drilling in North America. This is an emerging development that has gained credibility, and is an exciting opportunity for industry to extract greater production from known resource regions previously thought to be uneconomical.

Global markets

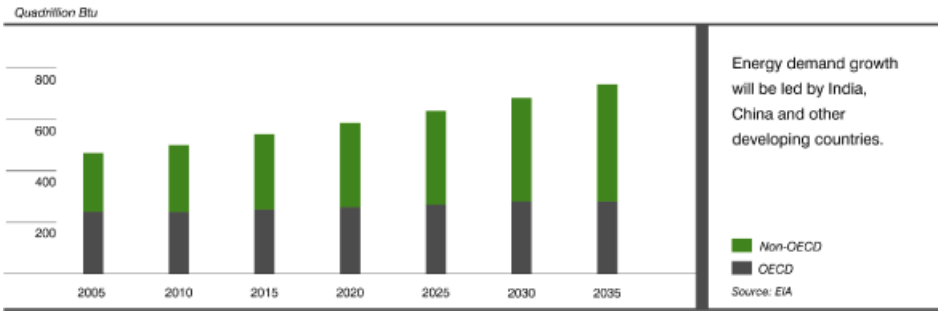
Global economic growth and prosperity drives energy consumption. Crude oil and to a lesser extent natural gas are the most dominant and versatile sources of energy in developed countries while crude oil and coal are the dominant sources of energy in developing countries. Oil and its by-products are currently the most important fuels 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 raw materials for countless consumer products.

From a reference year of 2007, energy consumption is projected by the United States government Energy Information Administration (“EIA”) in their 2010 International Energy Outlook to increase 49% by 2030 with oil, natural gas and coal meeting approximately 83% of global demand, as depicted in the graphs below. World oil consumption is predicted to rise about 0.9% 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 high oil prices encouraging consumers to turn to natural gas in the near term the EIA is forecasting natural gas consumption increases of 1.8% per year until 2020 when it is projected to slow to 0.9% growth per year as natural gas is projected to become increasingly more expensive.

World Energy Sources, 1990-2035

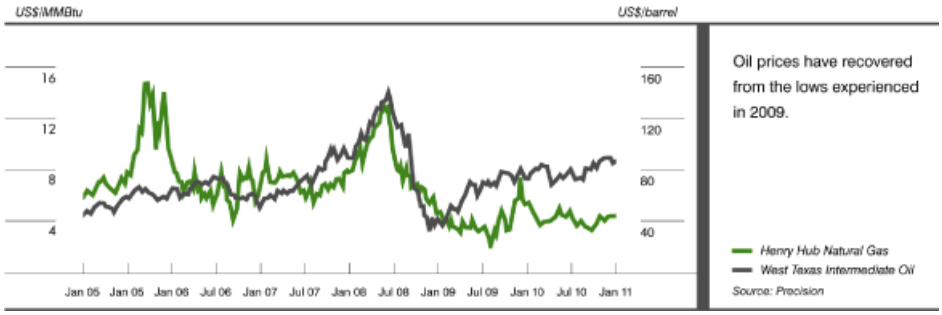


World Energy Consumption, 2005-2035



Commodity prices moved lower with the economic crisis of 2008 but have staged a recovery as demand and supply fundamentals 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 has remained relatively flat with only short-term recovery.

WTI Oil and Henry Hub Natural Gas Prices



LNG is a fungible commodity the movement of which is subject to demand fluctuations with supply trending to high priced markets, such as Europe and Asia. In North America, LNG is an important future source of supply that could offset production declines from mature reservoirs and help meet future natural gas demand. However, higher domestic natural gas production from shale gas reservoirs, such as the Barnett in Texas, Woodford in Oklahoma and Marcellus in Pennsylvania, has reduced the need for LNG and Canadian imports.

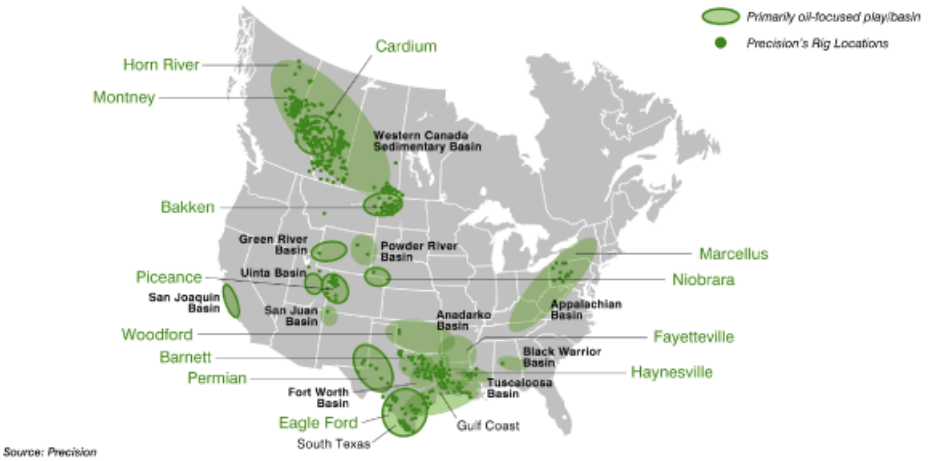
During this period of low natural gas prices producers are increasingly targeting liquids rich natural gas plays to garner improved well economics. Liquids rich natural gas is often referred to as wet natural gas and contains a blend of gases that are separated from natural gas through processing. Generally 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 while condensate prices are often higher than oil prices. Most liquids rich natural gas in North America is found in 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, especially the pace of investment in unconventional production. Increasingly, the benefits of new drilling and completion technology has allowed customers to drill more complex wells in emerging and established basins throughout North America. Precision has expanded its rig count in most of these areas and is poised to benefit from further improvements as fundamentals strengthen and 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.

Diversification: Unconventional Resource Coverage



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, develop and produce hydrocarbons and the eventual price of these products; the wider the margin, the greater the incentive to undertake these risks.

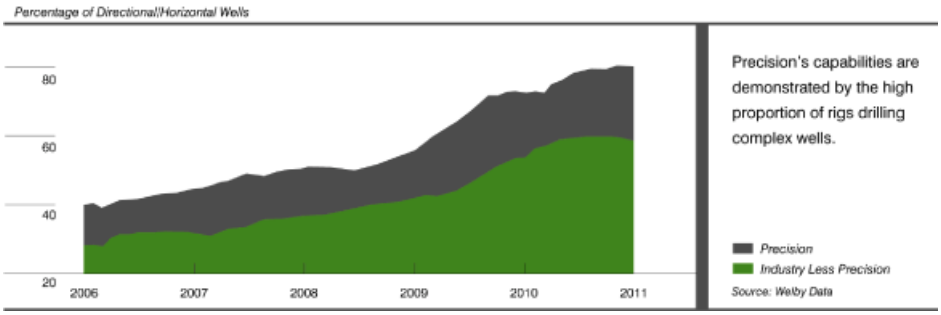
Exploration and development activities include acquiring access to prospective lands, seismic surveying to detect hydrocarbon bearing structures, drilling wells and completing successful wells for production. Exploration and production companies hire oilfield service companies to perform the majority 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 current price and outlook for the price of crude oil and natural gas and its byproducts realized by its customers. Since oil can be transported relatively easily, it is priced in a global market influenced by an array of economic and political factors while natural gas continues to be influenced by regional 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.

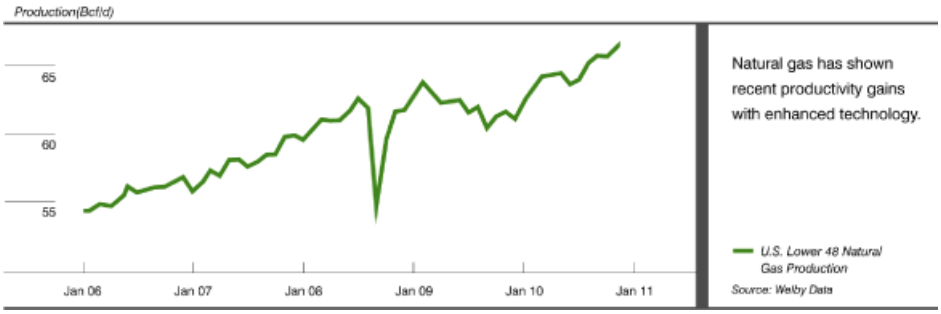
These technological improvements are evident in the proportion of wells drilled using directional and horizontal well programs. As shown in the graph below, there is a trend in Canada away from vertical wells to the more demanding requirements of directional/horizontal well programs. Precision's rig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

Growth of Rigs Drilling Directional/Horizontal Wells in Canada



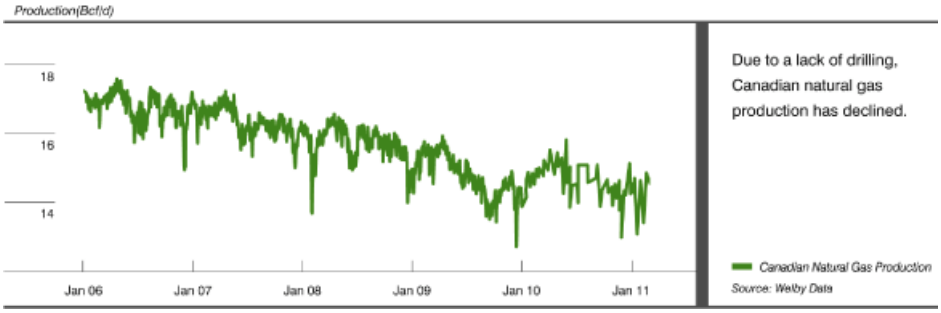
Technological innovations have been a major factor in the natural gas production increase for the United States as shown in the graph below. With these productivity gains the United States has become less reliant on Canada as a source of natural gas supply.

U.S. Lower 48 Natural Gas Production



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 this decline in Canadian natural gas production due to factors previously discussed.

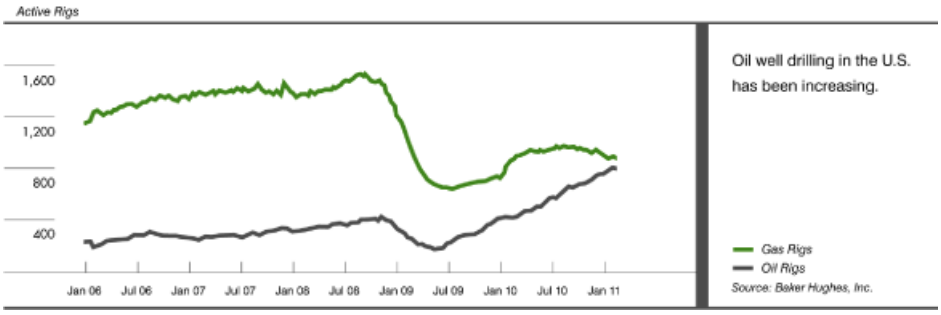
Canadian Natural Gas Production



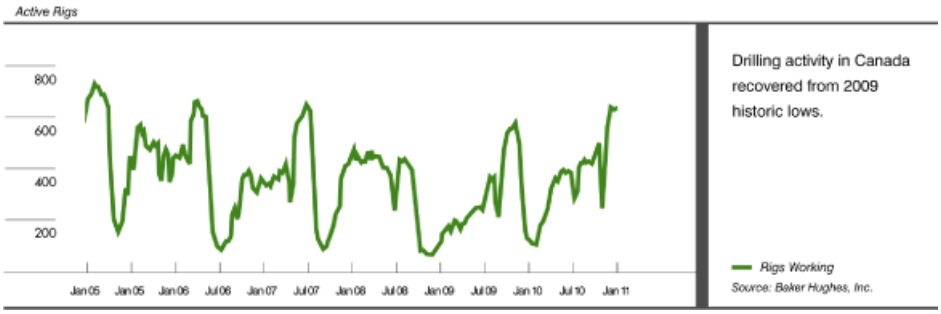
Drilling rig activity in Canada and the United States

The United States active drilling rig count increased from about 1,400 rigs in 2005 to a peak of about 1,950 rigs in late 2008 falling to a low in 2009 of about 830 rigs before recovering to about 1,670 by end of 2010. The demand for premium 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 displacing lower tiered rigs in the process.

U.S. Land Drilling Rig Activity



Canadian Drilling Rig Activity



As illustrated above, Canadian rig activity fluctuates with the seasons, an event which generally does not occur in the United States except in northern states.

OPERATING CAPABILITIES

Given industry fundamentals and the opportunities therein, Precision's operating capabilities as a supplier of services to oil and gas companies are the key determinant in the provision of cost effective services and solutions. Precision prides itself on providing quality equipment operated by highly 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 our operating capability to deliver.

High Performance Drilling Rigs

Precision Drilling 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. It is extremely proficient drilling conventional vertical wells and has been deployed in many regions of the world. 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. The Super Triple electric rigs are fabricated 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.

Large Diversified Rig Fleets

Precision's large diverse fleet of rigs is strategically deployed across the most active regions in North America including all the major prolific unconventional oil and gas fields. When an oil and gas company needs a specific type or size of rig in a given area, there is a high likelihood that Precision will have a rig well suited to meet the customer's demand in that region. Its 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 WCSB. 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.

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 drilling rig operations, LRG Catering supplies meals and provides accommodation for rig crews at remote worksites. Terra Water Systems plays an essential role in providing wastewater 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

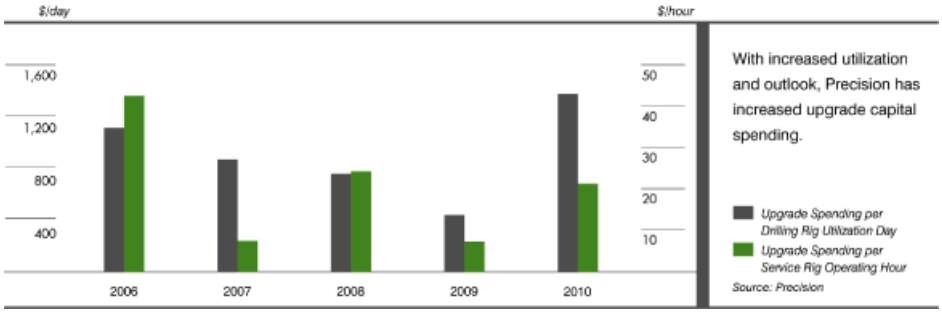
Safety, environmental stewardship and employee wellness is critical for Precision and its customers. The focus on working safely is one of Precision's most enduring values. The goal of Target Zero — Precision's safety vision for eliminating workplace incidents — is a fundamental belief that all injuries can be prevented. In 2010, 248 or 70% of Precision's drilling rigs and 193 or 88% 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 properly maintain 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.

Upgrade Capital Spending



With increased activity upgrade capital spending was increased in 2010 after a three year period of challenging conditions that limited the economics associated with upgrade opportunities. Precision maintains a continuous replacement program for 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 through programs like its "Toughnecks" recruiting program.

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 enquiries. Rig manufacturing projects benefit from scheduling and budgeting tools as economies of scale can be identified and leveraged as construction activities 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, develop and produce 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 is 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 continuously reviews opportunities to better manage the consumption of non renewable resources and the environmental footprint. Precision continues to apply new and improved technologies to its 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
- Recycling of used materials
- Use of recycled materials
- Efficient equipment designs
- Spill containment

Operating Efficiency

Precision maximizes the efficiency of operations through proximity to worksites, 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 integral as a measure of operating effectiveness.

Key factors which contribute to lower customer well costs are:

- Mechanical downtime which is minimized 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. In 2008 the successful recruiting program, Toughnecks, was initiated to help 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 operating earnings divided by total assets less current liabilities:

  Measure against predetermined target percentage.
- Financial performance — share value performance for year against industry peer group, including dividends or distributions:

  Measure against predetermined selection of competitors in peer group.
- Financial performance — operating earnings achieved:

  Measure against predetermined target.

CAPITAL AND LIQUIDITY MANAGEMENT

On June 1, 2010, Precision converted to a corporation pursuant to a Plan of Arrangement under the Business Corporations Act of Alberta. Precision obtained approval for the conversion from its unitholders in conjunction with its 2010 Annual and Special Meeting of Unitholders held on May 11, 2010. An information circular and proxy statement were mailed to unitholders in connection with the meeting.

As previously disclosed in the notes to the financial statements, certain Canadian tax authorities may review prior period transactions. On February 9, 2011, the Corporation received a notice of reassessment from Canada Revenue Agency for $216 million relating to a transaction that occurred in the 2005 tax year. The Corporation is in the process of carefully reviewing the reassessment. Precision will appeal this reassessment as it vigorously defends what it believes to be a correct filing position related to this transaction. The appeal process required the Corporation to pay security of approximately $108 million. This appeal process could be lengthy and the ultimate outcome of the process is unknown.

The oilfield services business is inherently cyclical in nature. Precision employs a disciplined approach to minimize costs through operational management practices and a variable cost structure, and to maximize revenues through term contract positions 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. Precision maintains a disciplined approach to deploying expansion capital and requires two to five year contracts for new build programs 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 operation's cash flows. Interest rate risk is minimized by capitalizing on repayment opportunities. In November 2010 Precision designated its U.S. denominated long-term debt as a hedge of its net investment in its U.S. operations. 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 November 17, 2010 , Precision closed an offering of US$650 million aggregate principal amount of 6.625% senior unsecured notes due 2020 (the "6.625% Senior Notes") in a private placement. The net proceeds from the 6.625% Senior Notes offering were used to repay in full the outstanding indebtedness under Precision's then existing term loan A and term loan B credit facilities. At that time, the outstanding balance under the term loan A credit facility was approximately US$263 million and the outstanding balance under the term loan B credit facility was approximately US$318 million. In conjunction with the closing of the 6.625% Senior Notes offering, Precision terminated its existing secured credit facilities and entered into a new US$550 million senior secured revolving credit facility ("Secured Revolver Facility") expiring in 2013. Subject to certain conditions, the new Secured Revolver Facility may be increased by an additional US$100 million.

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

Secured Revolver Facility

The Secured Revolver 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 Revolver Facility:

- the Secured Revolving 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 Revolver Facility has a term of three years maturing on November 17, 2013, 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 three years from the date of the extension request;
- a maximum consolidated senior debt to EBITDA ratio of 2.5 to 1.0 for the most recent four consecutive fiscal quarters;
- a maximum consolidated total debt to EBITDA ratio of 3.5 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 Revolver 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 Revolver Facility contains representations and warranties, covenants and events of default customary for transactions of this nature, including financial ratio covenants discussed above that are tested on a quarterly basis.

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

6.625% Senior Unsecured Notes

The 6.625% Senior Unsecured Notes ("6.625% Senior Notes") 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 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 with the net proceeds of certain equity offerings. Prior to November 15, 2015, Precision may redeem the notes in whole or in part at 106.625% of their principal amount, plus accrued interest. 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 limits 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 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 and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

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

10% Senior Unsecured Notes

The 10% senior unsecured notes ("10% Senior Notes"), issued on April 22, 2009, have an eight-year term, with one-third of the initial outstanding principal amount payable on each of the 6th, 7th and 8th anniversaries of the closing date of the private placement. Interest on these notes is 10% per annum, payable quarterly in arrears, provided that Precision is able, in certain circumstances, to defer the payment of that interest for as much as two years, in which case the interest rate is increased to 12% and interest becomes payable on both the principal amount of the 10% Senior Notes and the amount of the deferred interest, until the deferred interest is paid in full. The 10% Senior Notes are unsecured and have been guaranteed by each subsidiary of Precision that has guaranteed the Secured Revolver Facility.

On February 23, 2011, Precision repaid, in full, the 10% Senior Notes. The aggregate repayment of approximately $204 million included the $175 million in principal, accrued interest and a "make-whole" amount payable under the terms of these notes.

6.50% Senior Notes

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

The net proceeds of the 2011 Note Offering and available cash were used to repay all of the outstanding indebtedness under the Secured Revolver Facility on March 16, 2011. The 6.50% Senior Notes will mature on March 15, 2019, and will 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 6.50% Senior Notes 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 and interest on the 6.50% Senior Notes will be 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 6.50% Senior Notes with the net proceeds of certain equity offerings. Prior to March 15, 2015, Precision may redeem the notes in whole or in part at their principal amount, plus the applicable premium and accrued interest. 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 6.50% Senior Notes 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 6.50% Senior Notes and equal in right of payment with all existing and future obligations of Precision that are not so subordinated.

General

At December 31, 2010, approximately $821 million (2009 — $866 million) was outstanding under the secured and unsecured credit facilities. The Secured Revolver Facility was undrawn at December 31, 2010 and is available in the future to fund capital expenditures or for general corporate purposes.

During 2010 Precision generated cash from continuing operations of $305 million. The cash generated was used to purchase property, plant and equipment net of disposal proceeds and related non-cash working capital of $118 million, repay, net of additional borrowings, long-term debt of $32 million (net), pay additional finance charges of $26 million and when combined with a $3 million unrealized foreign exchange loss on holding foreign cash leaves a net change in the cash held balance as at December 31, 2010 of $126 million.

Precision exited 2010 with a long-term debt to long-term debt plus equity ratio of 0.24 compared to 0.22 in 2009 and a ratio of long-term debt to cash provided by continuing operations of 2.63 compared to 1.48 in 2009.

In addition to the Secured Revolver Facility and the senior unsecured notes, Precision had available $25 million (2009 — $25 million) and US$15 million (2009 — US$nil) 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 $0.1 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 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, 2010 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 debt	$ 821,490	$ —	$ —	$ 58,333	$ 763,157
Interest on long-term debt	516,150	60,330	120,660	116,771	218,389
Rig construction	16,480	16,480	—	—	—
Operating leases	78,240	13,187	19,370	15,267	30,416
Contractual incentive plans (1)	34,258	10,210	24,048	—	—
Total contractual obligations	$1,466,618	$ 100,207	$164,078	$190,371	$1,011,962

(1) Includes amounts not yet accrued at December 31, 2010 but payable at the end of the contract term. Share based compensation amounts disclosed at year-end share price. Precision has multiple 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, 2011	December 31, 2010	December 31, 2009	December 31, 2008
Shares	275,733,253	275,686,676	275,516,778	160,042,065
Exchangeable LP units	—	—	118,820	151,583
Total Shares outstanding	275,733,253	275,686,676	275,635,598	160,193,648
Deferred shares outstanding	393,717	393,717	290,732	54,543
Warrants outstanding	15,000,000	15,000,000	15,000,000	—
Share options outstanding	5,595,912	3,723,123	1,787,700	—

Prior to the conversion to a growth oriented corporation on June 1, 2010 Precision had a policy of making monthly distributions to holders of Trust units and holders of exchangeable LP units. In 2010 cash distributions declared while Precision was a Trust were $nil as compared to cash distributions in 2009 of $6.4 million or $0.04 per diluted share. Upon conversion Precision did not institute a dividend payment policy.

(Stated in thousands of Canadian dollars except per share amounts)	**2010**	2009	2008
Shares outstanding	**275,686,676**	275,635,598	160,193,648
Year-end share price (1)	**$ 9.60**	$ 7.65	$ 10.07
Shares at market	**$ 2,646,592**	$ 2,108,612	$ 1,613,150
Long-term debt	**804,494**	748,725	1,368,349
Less: Working capital	**(460,149)**	(320,860)	(345,329)
Enterprise value	**$ 2,990,937**	$ 2,536,477	$ 2,636,170

(1) As per the Toronto Stock Exchange.



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, camp and catering services, procurement and distribution of oilfield supplies and the manufacture and refurbishment of drilling and service rig equipment. The Completion and Production Services segment includes service rigs for well completion and workover services, snubbing services, wastewater 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, 2010, the Contract Drilling Services segment comprised:

- 202 land drilling rigs in Canada;
- 150 land drilling rigs in the United States;
- two land drilling rigs in Mexico;
- one land drilling rig in South America;
- 82 drilling and base camps;
- 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.

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, 2010, Precision's Completion and Production Services segment comprised:

- 200 well completion and workover service rigs;
- 20 snubbing units;
- approximately 11,050 oilfield rental items including well control equipment, surface equipment, specialty tubulars and wellsite accommodation units; and
- 77 wastewater treatment and three potable water production 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 has 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 three decades 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 in 2008 is the second largest North American land drilling contractor.

Precision currently comprises approximately 25% of the Canadian land drilling market, about six percent of the 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, drilling in environmentally sensitive areas and unconventional practices such as drilling with casing.

Tier 1 drilling rigs are high performance rigs, of newer 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 systems; 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 still provide an acceptable level of performance 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.

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, 2010:

Horsepower	< 1,000	1,000-1,500	>1,500	Total
Tier 1	61	47	12	120
Tier 2	66	37	23	126
Tier 3	81	22	6	109
Total	208	106	41	355

Geographic location	Canada	U.S.	International	Total
Tier 1	66	54	—	120
Tier 2	65	58	3	126
Tier 3	71	38	—	109
Total	202	150	3	355

COMPLETION AND PRODUCTION SERVICES

Precision's Completion and Production Services are also known within the oil and gas industry to be a part of the upstream sector with operations at the well location to complete wells that have been drilled and to maintain 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 20% 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 wastewater treatment for remote locations.

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	**2010**	2009	2008	2007
Singles:					
Mobile	150-400	**—**	—	2	5
Freestanding mobile	150-400	**94**	94	97	94
Doubles:					
Mobile	250-550	**25**	28	42	43
Freestanding mobile	200-550	**35**	30	23	9
Skid	300-860	**28**	30	48	55
Slants:					
Freestanding	250-400	**18**	18	17	17
Total Service Rigs		**200**	200	229	223
Snubbing Units		**20**	20	29	27
Total Service Rigs and Snubbing Units		**220**	220	258	250

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 OVERVIEW

Summary of Consolidated Statements of Earnings

(Stated in thousands of Canadian dollars)

Years ended December 31,	**2010**	2009	2008
Revenue:			
Contract Drilling Services	**$1,212,656**	$1,030,852	$ 809,317
Completion and Production Services	**227,835**	176,422	308,624
Inter-segment elimination	**(10,838)**	(9,828)	(16,050)
	1,429,653	1,197,446	1,101,891
EBITDA: (1)			
Contract Drilling Services	**416,638**	397,467	359,137
Completion and Production Services	**59,158**	42,499	109,054
Corporate and Other	**(40,413)**	(32,965)	(31,655)
	435,383	407,001	436,536
Depreciation and amortization	**182,719**	138,000	83,829
Loss on asset decommissioning	**—**	82,173	—
Operating earnings (1)	**252,664**	186,828	352,707
Foreign exchange gain	**(12,712)**	(122,846)	(2,041)
Finance charges	**211,327**	147,401	14,174
Earnings before income taxes	**54,049**	162,273	340,574
Income taxes	**(8,042)**	570	37,844
Net earnings	**$ 62,091**	$ 161,703	$ 302,730

(1) Non-GAAP measure. See page 45.

For the year ended December 31, 2010, Precision reported net earnings of $62 million or $0.22 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 liquids rich natural gas prices were experienced for much of 2010 when compared to 2009. For the year, West Texas Intermediate ("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.

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 unrealized foreign exchange gains or losses on operations outside Canada and on United States dollar denominated monetary positions. At December 31, 2010 Precision reported a U.S. dollar net monetary asset position of $229 million which excludes US$650 million of long-term debt that has been designated as a hedge of the Corporation's net investment in certain self-sustaining foreign operations. During 2010 Precision reported a $13 million foreign exchange gain as a result of the Canadian dollar appreciating 5% against the U.S. dollar compared with a 17% appreciation during 2009.

During 2010 there were about 11,940 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 44,300 industry wells were drilled in 2010 representing a 28% increase from the approximately 34,475 wells drilled in 2009.

Quarterly Financial Summary

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

Year ended December 31, 2010	**Q1**	**Q2**	**Q3**	**Q4**	**Year**
Revenue	**$373,136**	**$261,828**	**$359,152**	**$435,537**	**$1,429,653**
EBIDTA (1)	**118,403**	**58,994**	**112,597**	**145,389**	**435,383**
Net earnings	**62,017**	**(66,547)**	**61,078**	**5,543**	**62,091**
Per diluted share	**0.22**	**(0.24)**	**0.21**	**0.02**	**0.22**
Cash provided by operations	**20,624**	**142,004**	**67,575**	**75,192**	**305,395**
Distributions to unitholders — declared	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

Year ended December 31, 2009	Q1	Q2	Q3	Q4	Year
Revenue	$448,445	$209,597	$253,337	$286,067	$1,197,446
EBIDTA (1)	169,387	59,260	85,739	92,615	407,001
Net earnings	57,417	57,475	71,696	(24,885)	161,703
Per diluted share	0.28	0.22	0.25	(0.09)	0.63
Cash provided by operations	201,596	212,554	19,948	70,631	504,729
Distributions to unitholders — declared	$ 6,408	$ —	$ —	$ —	$ 6,408

(1) Non-GAAP measure. See page 45.

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 2010

For the fourth quarter ended December 31, 2010 Precision reported net earnings of $6 million or $0.02 per diluted share compared to a net loss of $25 million or $0.09 per diluted share for the fourth quarter of 2009. Financing costs for the fourth quarter of 2010 were $109 million which includes a non-cash charge of $91 million ($0.29 per diluted share after tax) related to Precision's long-term debt refinancing that was completed during the quarter.

Revenue in the fourth quarter of 2010 was $149 million higher than the prior year period. The increase was due to a year-over-year increase in rates and utilization days both in Canada and the United States. The mix of drilling rigs working under term contracts and well-to-well contracts moved average dayrate pricing higher in the United States and Canada during the quarter over the third quarter of 2010. Revenue in Precision's Contract Drilling Services segment increased by 53% while revenue increased 46% in the Canadian based Completion and Production Services segment in the fourth quarter of 2010 compared to the prior year quarter.

Drilling rig utilization days (spud to rig release plus move days) in Canada during the fourth quarter of 2010 were 9,730, an increase of 48% compared to 6,595 in 2009. Drilling rig activity for Precision in the United States was 51% higher than the same quarter of 2009 due to the recovery of drilling rig activity which began in the third quarter of 2009. On average Precision had one rig working in Mexico during the fourth quarter of 2010 and averaged two rigs in the corresponding quarter of 2009. Precision's camp and catering division benefited from the start up of a 500 man base camp in Canada that is contracted through the second quarter 2011. During the quarter, an average of 106 drilling rigs worked in Canada and 98 worked in the United States and Mexico totalling an average of 204 rigs working. This compares with an average of 176 rigs working in the third quarter of 2010 and 138 rigs in the fourth quarter a year ago. Service rig activity increased 32% from the prior year period, with the service rig fleet generating 84,758 operating hours in the fourth quarter of 2010 compared with 64,045 hours in 2009 for utilization of 42% and 32%, respectively. 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 $145 million compared with $93 million for the fourth quarter of 2009. EBITDA margin (EBITDA as a percentage of revenue) was 33% for the fourth quarter of 2010 compared to 32% for the same period in 2009. The increase in EBITDA margin was primarily attributable to higher utilizations and higher average dayrates in both markets in the fourth quarter of 2010 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.

Total operating costs were consistent in the fourth quarter of 2010 at 59% of revenue. Average operating costs per day for drilling rigs increased in the fourth quarter of 2010 to US$12,681 from the prior year fourth quarter of US$11,934 in the United States and decreased from $8,724 to $8,687 in Canada. The cost decrease in Canada was primarily due to cost control efforts offset by a labour rate increase that became effective at the beginning of the fourth quarter. In the United States, the increase was due to higher repairs and maintenance, proportionately higher activity in turnkey services and higher sales and use taxes. Within Precision's Completion and Production Services segment, average hourly operating costs for service rigs increased to $476 in the fourth quarter of 2010 as compared to $455 in the fourth quarter of 2009 due to a labour cost increase in late 2010 which was offset by an increase in service pricing.

General and administrative expenses were $34 million, an increase of $11 million from the fourth quarter of 2009 as incentive compensation costs tied to share price performance increased due to the rise in Precision's share price.

Depreciation and amortization expense in the fourth quarter of 2010 was $50 million compared with $35 million in the same period on 2009. The increase is attributable to the increase in activity in both Canada and the United States.

Net financing charges of $109 million for the fourth quarter of 2010 were $74 million higher than the prior year. Included in financing charges is the cost associated with the refinancing of Precision's long-term debt which required the Corporation to take a non-cash charge of $91 million for the expensing of deferred financing costs related to the previously outstanding long-term debt compared to an $8 million charge in 2009 related the voluntary prepayments on the term loan A and term loan B credit facilities.

In the fourth quarter of 2010 capital expenditures were $111 million, an increase of $97 million over the same period in 2009 and included $57 million on expansionary initiatives and $54 million on the upgrade of existing assets.

Contract Drilling Services segment revenue for the fourth quarter of 2010 increased by 53% to $367 million and EBITDA increased by 54% to $137 million compared to the same period in 2009. 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 consistent with the prior year at 37% of revenue. In Canada the increase in activity was realized in the spot market where rates are generally lower than term contracted rig rates while in the United States rigs contracted in 2010 were at lower average rates when compared to 2009. In Canada during the quarter Precision averaged 37 rigs working under term contracts representing 35% of its active rigs compared to 35 term contracted rigs in 2009 representing 49% of its active rigs. While in the United States Precision averaged 62 drilling rigs working under term contracts representing 64% of its active rigs compared to 35 rigs under term contract representing 55% of the active fleet. Average rig dayrates in Canada for the quarter were up 4% over the prior quarter and up 2% in the United States. Sequentially, the fourth quarter EBITDA margins were three percentage points higher than the third quarter of 2010 due to increased average rig dayrates.

In the Contract Drilling Services segment depreciation for the quarter was $12 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 and acquisition growth. The segment applies the unit of production method in calculating rig depreciation expense. During the fourth quarter of 2009 the Contract Drilling Services segment recognized a loss of $68 million related to the decommissioning of 38 drilling rigs.

In the Completion and Production Services segment, revenue for the fourth quarter of 2010 increased by 46% from the comparable quarter of 2009 to $72 million while EBITDA increased by 75% to $22 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 NGL commodity prices.

Service rig and snubbing activity increased 32% from the prior year period, with the fleet generating 84,758 operating hours in the fourth quarter of 2010 compared with 64,045 hours in 2009 for utilization of 42% and 32%, respectively. The increase was the result of higher service rig demand due to increased drilling activity and spending on maintenance of existing wells. New well completions accounted for 30% of service rig operating hours in the fourth quarter compared to 27% in the same quarter in 2009. Well completions in Canada in the fourth quarter increased 210% from the same quarter in 2009.

In the Completion and Production Services segment, depreciation in the fourth quarter of 2010 was higher than the prior year period due to higher activity levels. In the fourth quarter of 2009 the Completion and Production Services segment recorded a $14 million loss related to the decommissioning of 30 well servicing rigs and nine snubbing units. The segment applies the unit of production method in calculating well servicing rig depreciation expense.

YEAR ENDED DECEMBER 31

Contract Drilling Services Financial Results

(Stated in thousands of Canadian dollars, except where indicated)

Years ended December 31,	2010	% of Revenue	2009	% of Revenue	2008	% of Revenue
Revenue	**$1,212,656**		$1,030,852		$809,317	
Expenses:						
Operating	**738,515**	**60.9**	578,225	56.1	425,051	52.5
General and administrative	**57,503**	**4.7**	55,160	5.3	25,129	3.1
EBITDA (1)	**416,638**	**34.4**	397,467	38.6	359,137	44.4
Depreciation and amortization	**156,179**	**12.9**	118,889	11.5	57,076	7.1
Loss on asset decommissioning	**—**		67,794	6.6	—	—
Operating earnings (1)	**$ 260,459**	**21.5**	$ 210,784	20.4	$302,061	37.3

	2010	% Increase (Decrease)	2009	% Increase (Decrease)	2008	% Increase (Decrease)
Number of drilling rigs (end of year)	**355**	**0.9**	352	(5.9)	374	52.7
Drilling utilization days (operating and moving):						
Canada	**31,176**	**46.9**	21,229	(38.4)	34,488	(0.2)
United States	**32,450**	**43.1**	22,672	183.2	8,006	281.6
International	**602**	**(15.2)**	710	346.5	159	n/m
Drilling revenue per utilization day:						
Canada	**$16,139**	**(9.5)**	$17,824	8.6	$16,420	(2.5)
United States *(in US$)*	**$18,965**	**(17.4)**	$22,951	6.2	$21,610	(7.9)
Drilling statistics: (2)						
Number of wells drilled	**3,196**	**45.4**	2,198	(45.9)	4,061	(13.9)
Average days per well	**8.8**	**2.3**	8.6	13.2	7.6	16.9
Number of metres drilled *(000s)*	**5,119**	**54.4**	3,316	(39.0)	5,440	(6.4)
Average metres per well	**1,602**	**6.2**	1,509	12.6	1,340	8.8

(1) Non-GAAP measure. See page 45.

(2) Canadian operations only.

2010 Compared to 2009

The Contract Drilling Services segment generated revenue of $1,213 million in 2010, 18% more than the $1,031 million in 2009. The increase in revenue was the result of an increase in drilling activity in both Canada and the United States.

Operating earnings of $260 million decreased by $50 million or 24% from $211 million in 2009 and was 21% of revenue in 2010 compared to 20% 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 average revenue per utilization day. Operating expenses on a per day basis were 8% lower in Canada and 6% lower in the U.S. due to rig mix partially offset by costs associated with rig start-ups. General and administrative expense was higher in the year due to the increase in activity.

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 about 11,940 total wells drilled in Canada, 45% higher than in 2009. Horizontal drilling continues to expand in popularity in 2010 as operators exploited tight oil and natural gas plays with horizontal well bores and multi-stage fractures.

Precision's Canadian 2010 year end net rig count fell by one to 202. The industry drilling rig fleet has remained consistent with 2009 at about 800 drilling rigs at the end of 2010. Operating day utilization for Precision increased 15 percentage points to 38% while the industry utilization increased 16 percentage points to 41%. Industry operating days in Canada increased to 119,300 mainly due to an increase in oil prices.

Average drilling rig utilization dayrates for Precision rigs in Canada decreased by 9% in 2010 over 2009. With the increase in activity in 2010, proportionately more activity is coming from spot market rigs compared to contracted rigs, which are typically Tier 1 rigs and receive a dayrate premium.

Canadian Drilling operating earnings increased by 10 percentage points to 35% in 2010 primarily due to the 2009 charge related to the decommissioning of 26 rigs which contributed to a 12 percentage point decline in 2009. Excluding the effects of the 2009 asset decommissioning, depreciation expense for the year was $13 million higher than 2009 due to the increase in activity. Excluding the decommissioning charge, lower average dayrates, as more Tier 2 and Tier 3 rigs went to work, combined with costs associated with rig start ups to offset increased activity and resulted in Canadian Drilling operating earnings percentage remaining consistent with 2009.

The United States drilling division revenues increased $27 million or 4% over 2009 to $635 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.

Average drilling rig utilization dayrates in the United States decreased 17% in 2010 from 2009. The decrease in rates was due to a reduction in term contracted rigs and therefore a higher proportion of rigs working under well-to-well contracts and margin contributions from idle but contracted rigs in 2009.

EBITDA generated from United States operating activities of $186 million decreased $30 million or 14% from $216 million in 2009 primarily due to a decrease in average revenue per day. Operating expenses increased from 59% of revenue in 2009 to 65% in 2010.

LRG Catering activity and revenue increased by 2% and 3% respectively in 2010, which is less than increases in drilling activity as operators sought economic alternatives to on-site accommodations. To achieve greater cost control, LRG brought the purchasing and warehousing of its grocery items in-house.

Rostel Industries and Columbia Oilfield 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 leveraged its 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.

2009 Compared to 2008

The Contract Drilling Services segment generated revenue of $1,031 million in 2009, 27% more than the $809 million in 2008. An increase in drilling activity resulting mainly from Precision's acquisition in December 2008 of Grey Wolf, Inc. was offset by lower customer demand on an industry wide basis and corresponding lower average dayrates in both Canada and the United States.

Operating earnings of $211 million decreased $91 million or 30% from $302 million in 2008 and were 20% of revenue in 2009 compared to 37% in 2008. The decrease is primarily due to lower revenue and the decommissioning of 38 drilling rigs during the fourth quarter resulting in a non-cash charge to earnings of $68 million.

Capital expenditures for the Contract Drilling Services segment in 2009 were $183 million and included $163 million to expand the underlying asset base and $20 million to upgrade existing equipment. The majority of the expansion capital was associated with Precision's 2008 rig build program where 16 rigs were being constructed for operations in the United States and Canada.

Canadian Drilling division revenues decreased $188 million or 33% over 2008 to $378 million due to a decrease in industry drilling brought about by low oil prices in the first quarter and depressed natural gas price throughout 2009.

Canadian Drilling operating earnings as a percentage of revenue decreased by 12 percentage points to 25% of revenue in 2009 primarily due to the decommissioning of 26 rigs. Normalized for the loss on asset decommissioning, higher dayrates combined with costs saving initiatives allowed for Canadian Drilling operating earnings percentage to be maintained.

The United States drilling division revenues increased $418 million or 220% over 2008 to $608 million. Drilling rig activity was 183% higher in 2009 due to the acquisition growth in December 2008.

EBITDA generated from United States operating activities of $216 million increased $124 million or 134% from $92 million in 2008 primarily due to an increase in activity from the rig fleet growth during 2008, primarily with the acquisition of Grey Wolf in December 2008. Operating expenses increased from 49% of revenue in 2008 to 59% in 2009. The increase was mainly due to higher maintenance and repair costs for the rig fleet compared to the relatively new rig fleet during 2008, fixed costs spread over lower activity levels and a decrease in average drilling rates due to a more competitive environment.

Completion and Production Services Financial Results

(Stated in thousands of Canadian dollars, except where indicated)

Years ended December 31,	**2010**	**% of Revenue**	2009	% of Revenue	2008	% of Revenue
Revenue	**$227,835**		$176,422		$308,624	
Expenses:						
Operating	**159,071**	**69.8**	123,846	70.2	188,705	61.2
General and administrative	**9,606**	**4.2**	10,077	5.7	10,865	3.5
EBITDA (1)	**59,158**	**26.0**	42,499	24.1	109,054	35.3
Depreciation and amortization	**21,491**	**9.4**	17,186	9.7	22,966	7.4
Loss on asset decommissioning	**—**	**—**	14,379	8.2	—	—
Operating earnings (1)	**$ 37,667**	**16.5**	$ 10,934	6.2	$ 86,088	27.9

	2010	**% Increase (Decrease)**	2009	% Increase (Decrease)	2008	% Increase (Decrease)
Number of service rigs (2) (end of year)	**220**	**—**	220	(14.7)	258	2.7
Service rig operating hours	**294,126**	**33.9**	219,649	(39.2)	361,367	(5.9)
Revenue per operating hour	**$ 637**	**(3.8)**	$ 662	(8.4)	$ 723	(3.0)

(1) Non-GAAP measure. See page 45.

(2) Now includes snubbing services. Comparative numbers have been restated to reflect this change.

2010 Compared to 2009

The Completion and Production Services segment revenue increased by $51 million to $228 million primarily due to an increase in industry activity as customers increased spending with the increase in oil and NGL prices.

Operating earnings increased by $27 million or 244% and was 17% of revenue in 2010 compared to 6% 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 remained consistent at 70% of revenue in 2010 and 2009. The slight decrease in costs as a percentage of revenue decreased 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 25% from the prior year due to higher operating activity and fewer gains on disposal realized.

Capital spending in 2010 of $12 million, up 319% from $3 million in 2009, included capital to complete construction of three wastewater treatment units, add rental equipment to the fleet and upgrade service rigs and snubbing units.

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.

With a lag between the drilling and completion of a well, 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 was also a rising number of wells where rig less 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.

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

2009 Compared to 2008

The Completion and Production Services segment revenue decreased by $132 million to $176 million in 2009 from 2008 mainly due to a decline in industry activity.

Operating earnings decreased by $75 million or 87% and was 6% of revenue in 2009 compared to 28% in 2008 due mainly to lower 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 increased from 61% of revenue in 2008 to 70% in 2009. The margin decrease was primarily attributed to crew wage rate increases and lower equipment utilization which resulted in higher daily or hourly operating costs associated with fixed operating cost components.

Capital spending in 2009 of $3 million, down 88% from $24 million in 2008, included capital to complete the construction of a service rig and two wastewater treatment units, and for service rig and snubbing unit upgrades.

The Precision Well Servicing division revenue decreased by $116 million or 44% over 2008 to $145 million as operating rates moved downward in conjunction with reduced activity levels. Price decreases established in the first quarter of 2009 impacted operating rates for all of 2009. Costs were higher due to increased crew wages and fuel costs and a $14 million charge for decommissioning of 30 service rigs and nine snubbing units.

Precision Rentals generated revenues of $26 million, which was $15 million or 37% lower than 2008 as activity was impacted by lower drilling and well servicing activity. Each of Precision Rental's three major product lines experienced year-over-year revenue declines in rates which was due to excess industry equipment and pricing pressure.

The Terra Water Systems division generated revenue of $5 million in 2009 compared to $6 million in 2008, a decrease of 18%.

Corporate and other items

2010 Compared to 2009

Corporate and Other Expenses

Corporate and other expenses were $45 million a $10 million increase from the prior year of $35 million. The increase was primarily due to share based performance incentive plans and higher professional fees in the current year.

Foreign Exchange

The foreign exchange gain for the current year was $13 million compared to a gain of $123 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 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 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 loan A and term loan B credit facilities offset by lower average debt outstanding during 2010 compared to the prior year. Included in financing charges is the amortization of debt issue costs, including accelerated amortization from voluntary debt repayments of $29 million compared to $34 million in 2009.

Income Taxes

The year-over-year decrease in taxes of $9 million was largely a result of foreign exchange gains and income taxed at lower rates.

2009 Compared to 2008

Corporate and Other Expenses

Corporate and other expenses for 2009 were in-line with 2008 at $35 million.

Foreign Exchange

The foreign exchange gain in 2009 was $123 million compared to a gain of $2 million in the prior year. The increase was the result of translation gains on United States dollar denominated debt and the weakening of the U.S. dollar relative to the Canadian dollar offset marginally by losses on the translation of foreign dollar denominated monetary assets. At the start of 2009, 92% of the long-term debt was denominated in U.S. dollars whereas as a result of repayments and refinancing through the year as at the end of 2009, 78% of the debt was denominated in U.S. dollars.

Financing Charges

Net financing charges for 2009 of $147 million increased by $133 million compared to 2008. The increase was attributable to the higher average debt outstanding during 2009 compared to the prior year and the interest associated with the credit facilities as part of the Grey Wolf acquisition completed December 23, 2008. Included in financing charges is the amortization of debt issue costs for $26 million compared to $1 million in 2008.

Income Taxes

Precision's effective income tax rate, before enacted tax rate reductions, on earnings from continuing operations before income taxes was nil in 2009 compared to 11% in 2008. The year-over-year decrease in the effective income tax rate was largely due to foreign exchange gains and income taxed at lower rates.

RESULTS BY GEOGRAPHIC SEGMENT

(Stated in thousands of Canadian dollars)

Years ended December 31,	**2010**	2009	2008
Revenue:			
Canada	**$ 772,332**	$ 569,013	$ 909,001
United States	**634,885**	608,109	189,796
International	**27,239**	23,748	4,686
Inter-segment elimination	**(4,803)**	(3,424)	(1,592)
	$1,429,653	$1,197,446	$1,101,891
Total Assets:			
Canada	**$1,818,875**	$1,639,046	$1,741,462
United States	**2,422,842**	2,498,909	3,033,378
International	**55,071**	53,758	58,862
	$4,296,788	$4,191,713	$4,833,702



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 Canadian GAAP. These principles differ in certain respects from United States GAAP and these differences are described and quantified in Note 20 to the consolidated financial statements.

Precision's significant accounting policies are described in Note 2 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. 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. During the fourth quarter of 2010, Precision completed its assessment and concluded that there was no impairment of the carrying value, however Precision will be taking a fair value reduction on certain assets upon implementation of IFRS.

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 may change as more experience is gained, market conditions shift or new technological advancements are made.

Income taxes

The Corporation and its subsidiaries follow the liability method which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions and clarifications of uncertain tax regimes may require changes to the valuation allowances associated with Precision's future tax assets.

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.

Transition to International Financial Reporting Standards

Precision is 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 is required on the effective date.

Precision has substantially completed its IFRS conversion plan and has adopted IFRS effective January 1, 2011. Training has been completed by employees impacted by the transition to IFRS.

Precision's project plan consisted of the following key activities:

- Identification and assessment of differences between Canadian GAAP ("CGAAP") and IFRS;
- Identification of key personnel required for design and implementation of the differences and accounting policies;
- Selection of new and revision of existing accounting policies to meet the requirements under IFRS;
- Design of information systems business processes to facilitate transition to IFRS and future compliance with IFRS;
- Review of the internal control environment and modification to controls as needed;
- Review of compensation plans and debt covenants; and
- Implementation of changes to information systems to facilitate dual reporting of financial results for transition year of 2010.

Precision has completed the above project activities. Transition to IFRS is not expected to materially impact debt covenants or affect cash flows. Except for changes to management reports, no significant changes are expected in internal controls over financial reporting or disclosure controls.

Precision will present financial statements for the first time in accordance with IFRS for the interim period ending March 31, 2011. Precision has completed an assessment of the impact of IFRS transition on its opening IFRS balance sheet which is being reviewed by its external auditors. Accordingly, the information being presented herein may differ from Precision's first IFRS compliant financial statements for period ending March 31, 2011.

Estimated impact of IFRS on Precision's Balance Sheet on adoption of IFRS (unaudited)

		As at January 1, 2010 (Transition Date)		
(Stated in thousands of Canadian dollars)	Note	Previous CGAAP	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	A	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,D	$ 128,376	$ 6,598	$ 134,974
Current portion of long-term debt		223	—	223
		128,599	6,598	135,197
Long-term liabilities	G	26,693	909	27,602
Long-term debt		748,725	—	748,725
Future income taxes	A to F	703,195	(82,910)	620,285
		1,607,212	(75,403)	1,531,809
Shareholders' equity:				
Shareholders' capital	A,G	2,770,708	(571,969)	2,198,739
Contributed surplus	C,D	4,063	(4,063)	—
Retained earnings (deficit)	H	107,227	(382,840)	(275,613)
Accumulated other comprehensive income (loss)	F	(297,497)	297,497	—
		2,584,501	(661,375)	1,923,126
		$4,191,713	$(736,778)	$3,454,935

Notes:

A) Precision has elected to apply IFRS retrospectively to all business combinations that occurred on or after December 23, 2008. Changes from the application of IFRS 3 Business Combinations on its Grey Wolf acquisition (the only acquisition to be restated) would have resulted in $590 million less purchase consideration, acquisition-related costs of $22 million to be expensed, intangible asset valued at $69 million to be recognized and amortized over its estimated life and additional deferred tax of $26 million which would have been subsequently realized in 2009 as the intangible asset would have been fully amortized in 2009.

The acquisition is restated as follows:

(Stated in thousands of Canadian dollars)	CGAAP	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 income taxes	(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

Under CGAAP, purchase consideration was valued based on Precision's share price on the date at which the acquisition was announced while under IFRS it is valued based on the share price on the date at which the acquisition closed. The additional intangible asset to be recognized under IFRS related to the purchased name which Precision did not intend to use in the long term and is fully amortized during 2009 under IFRS. Under IFRS negative goodwill acquired on a business combination is recognized in income in the year of acquisition. The goodwill adjustment was restated for foreign exchange translation as at December 31, 2009 resulting in a Canadian dollar reduction of carrying value of $75 million.

B) In accordance with IFRS 1, Precision elected to fair value select rigs 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. 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. The adjustment to the carrying value resulted in a decrease to future income tax liability of $84 million.

C) 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 this redemption feature requires Precision's equity settled share based compensation plan for non-management directors and share option plan for employees to be accounted for as liability based awards and be re-measured until settlement at the end of each reporting period. Under CGAAP 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 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.

D) Precision has a cash settled share appreciation rights plan ("SAR") which under CGAAP is 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.

E) Under CGAAP, 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. There was no effect to Precision's financial statements as a result of this election as there were no qualifying assets at the transition date.

F) In accordance with IFRS 1, Precision has elected to deem all foreign currency translation adjustments included in accumulated other comprehensive loss prior to the date of transition to be nil.

G) 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.

H) Estimated impact of IFRS on Precision's retained earnings on adoption of IFRS (unaudited).

(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 valuation of selected rigs net of depreciation	B	(145,868)
Calculation of historical PP&E cost net of depreciation	B	(114,894)
Deferred tax PP&E adjustments	B	84,049
Unit based compensation	C,D	(1,644)
Foreign currency translation adjustment	F	(297,497)
Difference in accounting for deferred tax		(2,030)
Exchangeable LP units	G	(18,479)
Decrease in retained earnings		$ (382,840)

Precision is monitoring changes being made to IFRS by the standard setting body. A number of standards are expected to be revised in the next 2 to 3 years by the standard setting body.

Overview of Business Risks

The discussion of risk that follows is not a complete representation. Additional information related to risks is disclosed in the 2010 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, camp and catering, service rig, snubbing, rentals, wastewater treatment and related service businesses and activities of Precision in Canada and the drilling rig, camp and catering and rentals business and activities of Precision in the United States are directly affected by fluctuations in exploration, development and production activity carried on by its customers which, in turn, is dictated by numerous factors including world energy prices and government policies. The addition, elimination or curtailment of government regulations and incentives could have a significant impact on the oil and natural gas business in Canada and the United States. These factors could lead to a decline in the demand for Precision’s services, resulting in a material adverse effect on revenues, cash flows 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. As natural gas is most economically transported in its gaseous state via pipeline, its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. 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. Crude oil and natural gas prices are quite volatile, which 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 by 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 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 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 its growth. As a result, Precision may have problems finding enough skilled and unskilled laborers in the future if demand for its services increases. If Precision is not able to increase its service rates sufficiently to compensate for similar wage rate increases, its operating results may be adversely affected.

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. Volatility in the credit markets in the future 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 volatility or uncertainty in the capital markets in the future, 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 indebtedness (including the Secured Revolver Facility and the 6.625% Senior Notes) or to undertake acquisitions or other business combination transactions. Because of the substantial uncertainty in the credit markets and the increased costs associated with issuing debt, Precision cannot assure that additional financing will be available to Precision when needed or on terms acceptable or favourable 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 its liquidity and capital management earlier in this report.

Technology

Complex drilling programs for the exploration and development of remaining conventional and unconventional oil and natural gas reserves in North America 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.

Capital Overbuild in the Drilling Industry

Because of the long life nature of drilling equipment and the lag between the moment a decision to build a rig is made and the moment the rig is placed into service, the number of rigs in the industry does not always correlate to the level of demand for those rigs. Periods of high demand often spur increased capital expenditures on rigs, and those capital expenditures may exceed actual demand. Management believes that there is currently an excess of rigs in the North American oil and gas industry in relation to current levels of demand. This capital overbuild could cause Precision's competitors to lower their rates and could lead to a decrease in rates in the oilfield services industry generally, which would have an adverse effect on the revenues, cash flows and earnings of Precision.

Tax Consequences of Previous Transactions Completed by Precision

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 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 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 $350 million, including the estimated amount pertaining to the long-term income tax recoverable on the balance sheet for $58 million. On February 9, 2011 the Corporation received a notice of reassessment from Canada Revenue Agency for $216 million relating to a transaction that occurred in the 2005 tax year which is included in the $350 million noted above. The Corporation will appeal this reassessment as it vigorously defends what it believes to be a correct filing position related to this transaction. The appeal process required the Corporation to pay security of approximately $108 million.

Environmental

There is growing concern about the apparent connection between the burning of fossil fuels and climate change. 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 including the demand for hydrocarbons and resulting in lower demand for Precision's services.

Precision maintains a comprehensive insurance and risk management program to protect its assets and operations. Precision monitors and complies with current environmental requirements.

United States Dollar Exchange Exposure

Precision's operations in the United States and Mexico have revenue, expenses, assets and liabilities denominated in United States dollars. As a result, Precision's income statement, balance sheet and statement of cash flow are impacted by changes in exchange rates between Canadian and United States dollars.

- ***Translation of United States Subsidiaries***

Precision's United States operations are considered self-sustaining operations and are translated into Canadian dollars using the current rate method. Under this method, the assets and liabilities of Precision's operations in the

United States are recorded in the consolidated financial statements at the exchange rate in effect at the balance sheet dates and the unrealized gains and losses are included in other comprehensive income, a component of shareholders' equity. As a result, changes in the Canadian to United States dollar exchange rates could materially increase or decrease Precision's United States dollar denominated net assets on consolidation which would increase or decrease, as applicable, shareholders' equity. In addition, under certain circumstances Canadian GAAP requires foreign exchange gains and losses that are accumulated in other comprehensive income to be recorded as a foreign exchange gain or loss in the statement of earnings. Precision's United States operations generate revenue and incur expenses in United States dollars and the United States dollar based earnings are converted into Canadian dollars for purposes of financial statement consolidation and reporting. The conversion of the United States dollar based revenue and expenses to a Canadian dollar basis does not result in a foreign exchange gain or loss but does result in lower or higher net earnings from United States operations 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 United States 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 self-sustaining 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 United States operations are transacted in United States dollars. 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 Canadian operations' 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. While alternate suppliers exist for most of these components, materials, equipment, parts and services, cost increases, delays in delivery due to high activity or other unforeseen circumstances may be experienced. 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. However, if the current or alternate suppliers are unable to provide or deliver the necessary components, materials, equipment, parts and services, 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 Executive Vice President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2010, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice President 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 Executive Vice President and Chief Financial Officer concluded that the design and operation of Precision's disclosure controls and procedures were effective as at December 31, 2010.

During the fourth quarter of 2010, 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 Executive Vice President 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.

Non-GAAP Measures

Precision uses certain measures that are not recognized under Canadian generally accepted accounting principles to assess performance and believe these non-GAAP measures provide useful supplemental information to investors. Following are the non-GAAP measures Precision uses in assessing performance.

EBITDA

Management believes that in addition to net earnings, earnings before interest, taxes, loss on asset decommissioning, depreciation and amortization and foreign exchange ("EBITDA") as derived from information reported in the Consolidated Statements of Earnings and Retained Earnings (Deficit) 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 funds are invested, how non-cash depreciation and amortization charges or how non-cash decommissioning charges affect results.

The following table provides a reconciliation of net earnings under GAAP as disclosed in the Consolidated Statement of Earnings and Retained Earnings (Deficit) to EBITDA.

(Stated in thousands of Canadian dollars)	**2010**	2009	2008
EBITDA	**$ 435,383**	$ 407,001	$436,536
Add (deduct):			
Depreciation and amortization	**(182,719)**	(138,000)	(83,829)
Loss on asset decommissioning	**—**	(82,173)	—
Foreign exchange	**12,712**	122,846	2,041
Financing charges	**(211,327)**	(147,401)	(14,174)
Income taxes	**8,042**	(570)	(37,844)
Net earnings	**$ 62,091**	$ 161,703	$302,730

Operating earnings

Management believes that in addition to net earnings, operating earnings as derived from information reported in the Consolidated Statements of Earnings and Retained Earnings (Deficit) 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.

(Stated in thousands of Canadian dollars)	**2010**	2009	2008
Operating earnings	**$ 252,664**	$ 186,828	$352,707
Add (deduct):			
Foreign exchange	**12,712**	122,846	2,041
Financing charges	**(211,327)**	(147,401)	(14,174)
Income taxes	**8,042**	(570)	(37,844)
Net earnings	**$ 62,091**	$ 161,703	$302,730

Precision Drilling Corporation

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 Canadian generally accepted accounting principles ("GAAP") 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 Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2010 to December 31, 2009 and the years ended December 31, 2009 to December 31, 2008. Note 20 to the consolidated financial statements describes the impact on the consolidated financial statements of significant differences between Canadian and United States GAAP.

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 generally accepted accounting principles. 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, 2010. Also management determined that there were no material weaknesses in the Corporation's internal control over financial reporting as of December 31, 2010.

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.

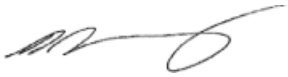
KPMG LLP completed an audit of the design and effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010, as stated in their report included herein and expressed an unqualified opinion on design and effectiveness of internal control over financial reporting as of December 31, 2010.

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 Board of Directors of Precision Drilling Corporation and its Audit Committee.



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

March 15, 2011



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

March 15, 2011

Precision Drilling Corporation

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") and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements earnings and retained earnings (deficit), comprehensive income (loss), and cash flow for each of the years in the three-year period ended 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 Canadian generally accepted accounting principles, 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 circumstances. 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 opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flow for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2010, 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 15, 2011 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Calgary, Alberta
March 15, 2011

Precision Drilling Corporation

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, 2010, 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, 2010, 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 balance sheets of the Corporation as of December 31, 2010 and 2009, and the related consolidated statements of earnings and retained earnings (deficit), comprehensive income (loss) and cash flow for each of the years in the three-year period ended December 31, 2010, and our report dated March 15, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Calgary, Alberta
March 15, 2011

Precision Drilling Corporation

CONSOLIDATED BALANCE SHEETS

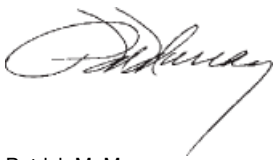
As at December 31,

(Stated in thousands of Canadian dollars)		**2010**	2009
ASSETS			
Current assets:			
Cash		**$ 256,831**	$ 130,799
Accounts receivable	*(Note 24)*	**414,901**	283,899
Income tax recoverable		**—**	25,753
Inventory		**4,933**	9,008
		676,665	449,459
Income tax recoverable		**64,579**	64,579
Property, plant and equipment	*(Note 3)*	**2,812,281**	2,913,966
Intangibles	*(Note 4)*	**6,366**	3,156
Goodwill	*(Note 5)*	**736,897**	760,553
		$4,296,788	$4,191,713
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	*(Note 24)*	**$ 215,653**	$ 128,376
Income tax payable		**863**	—
Current portion of long-term debt	*(Note 9)*	**—**	223
		216,516	128,599
Long-term liabilities	*(Note 8)*	**30,319**	26,693
Long-term debt	*(Note 9)*	**804,494**	748,725
Future income taxes	*(Note 10)*	**667,540**	703,195
		1,718,869	1,607,212
Commitments and contingencies	*(Notes 16 and 25)*		
Subsequent events	*(Notes 9, 25 and 26)*		
Shareholders' equity:			
Shareholders' capital	*(Note 11(b))*	**2,771,023**	—
Unitholders' capital	*(Note 11(b))*	**—**	2,770,708
Contributed surplus	*(Note 11(d))*	**10,471**	4,063
Retained earnings		**169,318**	107,227
Accumulated other comprehensive loss	*(Note 12)*	**(372,893)**	(297,497)
		2,577,919	2,584,501
		$4,296,788	$4,191,713

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:





Robert J.S. Gibson
Director

Patrick M. Murray
Director

Precision Drilling Corporation

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

Years ended December 31,

(Stated in thousands of Canadian dollars, except per share amounts)		**2010**	2009	2008
Revenue		**$1,429,653**	$1,197,446	$1,101,891
Expenses:				
Operating		**886,748**	692,243	598,181
General and administrative		**107,522**	98,202	67,174
Depreciation and amortization	*(Note 3)*	**182,719**	138,000	83,829
Loss on asset decommissioning	*(Note 3)*	**—**	82,173	—
Foreign exchange		**(12,712)**	(122,846)	(2,041)
Finance charges	*(Note 14)*	**211,327**	147,401	14,174
Earnings before income taxes		**54,049**	162,273	340,574
Income taxes:	*(Note 10)*			
Current		**7,634**	(14,901)	6,102
Future		**(15,676)**	15,471	31,742
		(8,042)	570	37,844
Net earnings		**62,091**	161,703	302,730
Retained earnings (deficit), beginning of year		**107,227**	(48,068)	(126,110)
Distributions declared	*(Note 7)*	**—**	(6,408)	(224,688)
Retained earnings (deficit), end of year		**$ 169,318**	$ 107,227	$ (48,068)
Earnings per share:	*(Note 17)*			
Basic		**$ 0.23**	$ 0.65	$ 2.23
Diluted		**$ 0.22**	$ 0.63	$ 2.23

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31,

(Stated in thousands of Canadian dollars)		**2010**	2009	2008
Net earnings		**$ 62,091**	$ 161,703	$302,730
Unrealized gain (loss) on translation of assets and liabilities of self-sustaining operations denominated in foreign currency	*(Note 12)*	**(90,213)**	(312,856)	11,222
Foreign exchange gain on net investment hedge with U.S. denominated debt, net of tax of $2,148		**14,817**	—	—
Comprehensive income (loss)		**$(13,305)**	$(151,153)	$313,952

See accompanying notes to consolidated financial statements.

Precision Drilling Corporation

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31,

(Stated in thousands of Canadian dollars)		**2010**	2009	2008
Cash provided by (used in):				
Operations:				
Net earnings		**$ 62,091**	$ 161,703	$ 302,730
Adjustments and other items not involving cash:				
Long-term compensation plans		**15,526**	3,310	2,163
Depreciation and amortization		**182,719**	138,000	83,829
Loss on asset decommissioning		**—**	82,173	—
Future income taxes		**(15,676)**	15,471	31,742
Foreign exchange on long-term monetary items		**(12,480)**	(113,649)	7,219
Amortization of debt issue costs and debt settlement	*(Note 14)*	**143,593**	43,893	798
Other		**(1,075)**	655	—
Changes in non-cash working capital balances	*(Note 24)*	**(69,303)**	173,173	(84,571)
		305,395	504,729	343,910
Investments:				
Purchase of property, plant and equipment		**(175,901)**	(193,435)	(229,579)
Proceeds on sale of property, plant and equipment		**12,256**	15,978	10,440
Business acquisitions, net of cash acquired	*(Note 19)*	**—**	—	(768,392)
Changes in income tax recoverable		**—**	(6,524)	(55,148)
Changes in non-cash working capital balances	*(Note 24)*	**45,532**	(26,250)	22,583
		(118,113)	(210,231)	(1,020,096)
Financing:				
Repayment of long-term debt		**(696,863)**	(974,271)	(179,826)
Debt issue costs		**(26,382)**	(21,628)	(160,098)
Re-purchase of trust units		**(6)**	—	—
Distributions paid	*(Note 7)*	**—**	(27,233)	(216,304)
Increase in long-term debt		**663,455**	408,893	1,308,040
Issuance of common shares on exercise of options		**122**	—	—
Issuance of Trust units, net of issuance costs		**—**	413,223	—
Change in bank indebtedness		**—**	—	(14,115)
Change in non-cash working capital balances	*(Note 24)*	**985**	—	—
		(58,689)	(201,016)	737,697
Effect of exchange rate changes on cash and cash equivalents		**(2,561)**	(24,194)	—
Increase in cash and cash equivalents		**126,032**	69,288	61,511
Cash and cash equivalents, beginning of year		**130,799**	61,511	—
Cash and cash equivalents, end of year		**$ 256,831**	$ 130,799	$ 61,511

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 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.

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. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The Corporation's accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"). These policies are consistent with accounting principles generally accepted in the United States in all material respects except as outlined in Note 20.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingencies. Significant estimates used in the preparation of the financial statements include, but are not limited to, depreciation of property, plant and equipment, valuation of long-lived assets and goodwill, allowance for doubtful accounts, accruals for employee incentive based compensation plans, accruals for uninsured workers' compensation and general liability claims and income taxes. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries and partnerships substantially all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated.

The Corporation does not hold investments in any companies where it exerts significant influence and does not hold interests in any variable interest entities.

(c) Cash and cash equivalents

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

(d) 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.

(e) Property, plant and equipment

Property, plant and equipment are carried at cost, including costs of direct material and labour. Where costs are incurred to extend the useful life of property, plant and equipment or to upgrade its capabilities, the amounts are capitalized to the related asset. Costs incurred to repair or maintain property, plant and equipment are expensed as incurred.

Property, plant, and equipment are depreciated as follows:

	Expected life	Salvage value	Basis of depreciation
Drilling rig equipment	5,000 utilization days	20 %	unit-of-production
Drill pipe and drill collars	1,500 operating days	—	unit-of-production
Service rig equipment	24,000 service hours	20%	unit-of-production
Drilling rig spare equipment	15 years	—	straight-line
Service rig spare equipment	10 years	—	straight-line
Rental equipment	10 to 15 years	—	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

(f) Intangibles

Intangibles with determinable lives are amortized using the straight-line method based on the estimated useful lives of the respective assets as follows:

Customer relationships	1 to 5 years
Patents	10 years
Loan commitment fees on revolving credit facility	3 years

(g) 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. Goodwill is allocated as of the date of the business combination to the Corporation's reporting segments that are expected to benefit from the business combination.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps.

In the first step, the carrying amount of the reporting segment is compared with its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of a reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(h) Long-lived assets

On a periodic basis, management assesses the carrying value of long-lived assets for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Corporation tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

(i) Income taxes

Precision and its subsidiaries follow the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using current or substantively enacted tax rates and laws expected to apply when these differences reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. Future tax assets are recognized if it is considered more likely than not that the tax asset 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

At December 31, 2010, approximately 41% (2009 — 42%) of the Corporation's employees were enrolled in defined contribution retirement plans.

Employer contributions to defined contribution plans are expensed as employees earn the entitlement and contributions are made.

(l) Long-term incentive plan

2010 is the final year of a long-term incentive plan (the "LTIP") which compensated officers and other key employees through cash payments at the end of a three-year term. The compensation is comprised of two components, a retention award and a performance award. The retention award is a lump sum amount determined in equivalent notional shares at the date of commencement in the LTIP and is accrued and charged to earnings on a straight-line basis over the three-year term. The values of the notional shares are adjusted monthly based on the period-end trading price of shares and the resulting gains or losses are included in earnings. The performance components are based on operational and financial targets as determined by the Compensation Committee of Precision and was accrued over the three-year term of the plans.

(m) Share-based compensation plans

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. Prior to the conversion to a corporation, the number of deferred share units were adjusted for cash distributions to unitholders declared prior to redemption by issuing additional trust units based on the weighted average trading price of Precision's Trust units on the Toronto Stock Exchange for the five days immediately following the ex-distribution date. Compensation expense is recognized based on the current trading 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.

A cash settled Performance Share Unit incentive plan has been established for officers and other eligible employees. Under this plan notional performance share units ("PSU") are granted upon commencement in the plan and vest at the end of a three-year term. The vested PSUs are automatically paid out in cash in the first quarter following vesting at a value determined by the fair market value of common shares at December 31 of the vesting year and based on the number of PSUs held multiplied by a performance factor that ranges from zero to two times. The performance factor is based on Precision achieving a predetermined return on capital employed and share price performance compared to a peer group over the three year period. The intrinsic value of the PSUs is accrued in accounts payable and charged to earnings on a straight-line basis over the three-year term. This estimated value is adjusted monthly based on the period-end trading price of the Corporation's common shares and an estimated performance factor with the resulting gains or losses included in earnings.

A cash settled Restricted Share Unit incentive plan has been established for officers and other eligible employees. Under this plan notional restricted share units ("RSU") are granted upon commencement in the plan and vest annually over a three-year term. The vested RSUs are automatically paid out in cash in the first quarter following vesting at a value determined by the fair market value of the Corporation's common shares at December 31 of the vesting year and based on the number of RSUs held. The intrinsic value of the RSUs is accrued in accounts payable and charged to earnings on a straight-line basis over the three-year term. This estimated value is adjusted monthly based on the period-end trading price of the Corporation's common shares with the resulting gains or losses included in earnings.

A cash settled deferred share unit plan has been established whereby eligible participants of Precision's Performance Savings Plan could elect to receive a portion of their annual performance bonus in the form of deferred share units ("DSU"). Prior to the conversion to a corporation, these notional share units were adjusted for each cash distribution to unitholders by issuing additional DSUs based on the weighted average trading price of Precision's Trust units on the Toronto Stock Exchange for the five days immediately following the ex-distribution date. The values of these DSUs are adjusted monthly based on the period-end trading price of the Corporation's common shares and the resulting amount is included in accounts payable and accrued liabilities. Gains or losses resulting from these adjustments are charged to earnings.

A cash settled Deferred Signing Bonus Unit Plan was established for the Chief Executive Officer. Under this plan deferred share units were vested on the date of grant and are redeemable over a three-year period. Prior to the conversion to a corporation, these notional share units were adjusted for each cash distribution to unitholders by issuing additional DSUs based on the weighted average trading price of Precision's Trust units on the Toronto Stock Exchange for the five days immediately following the ex-distribution date. The values of these DSUs were adjusted monthly based on the period-end trading price of the Corporation's common shares and the resulting amount that was redeemable in the current year was included in accounts payable and accrued liabilities and the remainder was included in long-term incentive plan payable. Gains or losses resulting from these adjustments were charged to earnings. The final tranche from this plan was redeemed in 2010.

A cash settled share appreciation rights plan ("SAR") has been established for certain eligible participants. This plan uses notional share units that are valued based on the Corporation's common share price on the New York Stock Exchange. Compensation costs are accrued over the vesting periods when the market price of the common shares exceeds the strike price under the plan. The recorded liability is revalued at the end of each reporting period to reflect changes in the market price of the common shares with the net change recognized in earnings. When the SARs are exercised, the accrued liability is reduced. The accrued compensation cost for a SAR that is forfeited or cancelled is adjusted by decreasing the compensation cost in the period of forfeiture or cancellation.

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 on a straight-line basis over the grant's vesting period with an offsetting credit to contributed surplus. 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.

(n) Foreign currency translation

Accounts of the Corporation's integrated foreign operations are translated to Canadian dollars using average exchange rates for the month of the respective transaction for revenue and expenses. Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net earnings.

Accounts of the Corporation's self-sustaining foreign operations are translated to Canadian dollars using average exchange rates for the month of the respective transaction for revenue and expenses. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Gains or losses resulting from these translation adjustments are included in other comprehensive income and accumulated other comprehensive income in unitholders' equity.

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at current rates. Gains and losses are included in net earnings.

Gains and losses arising on translation of long-term debt designated as a hedge of self-sustaining foreign operations are deferred and included in accumulated other comprehensive income.

(o) Exchangeable LP units

Exchangeable LP units were presented as equity of the Trust as their features made them economically equivalent to Trust units.

(p) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated by using the treasury stock method for equity based compensation arrangements and the "if-converted" method for the convertible notes. 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. Under the "if-converted" method, the after-tax effect of interest expense related to the convertible notes is added back to net earnings, and the convertible notes are assumed to have been converted to common shares at the beginning of the period and are added to the weighted average number of shares outstanding.

(q) Financial instruments

Cash and cash equivalents are classified as "held for trading" and any change in fair value is recorded through net income.

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.

Derivative financial instruments such as interest rate swaps and caps are recorded at estimated fair value with changes in fair value each period included in earnings.

Transaction costs incurred on the issuance of debt are classified with the related debt instrument. These costs are amortized using the effective interest rate method over the life of the related debt instrument.

(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 self-sustaining 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 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 self-sustaining foreign operation are recorded in net earnings.

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

2010	Cost	Accumulated Depreciation	Net Book Value
Rig equipment	**$3,350,502**	**$ 777,359**	**$2,573,143**
Rental equipment	**89,895**	**49,080**	**40,815**
Other equipment	**114,451**	**67,137**	**47,314**
Vehicles	**81,223**	**41,153**	**40,070**
Buildings	**42,868**	**17,623**	**25,245**
Assets under construction	**66,721**	**—**	**66,721**
Land	**18,973**	**—**	**18,973**
	$3,764,633	**$ 952,352**	**$2,812,281**

2009	Cost	Accumulated Depreciation	Net Book Value
Rig equipment	$3,308,987	$ 612,826	$2,696,161
Rental equipment	87,410	47,357	40,053
Other equipment	112,862	78,403	34,459
Vehicles	82,658	36,032	46,626
Buildings	43,312	15,452	27,860
Assets under construction	49,641	—	49,641
Land	19,166	—	19,166
	$3,704,036	$ 790,070	$2,913,966

Assets under construction are not depreciated until such time as they are completed and placed into service.

In 2009 the Corporation incurred $82.2 million (2008 — $nil) of additional depreciation expense associated with the reduction in the carrying amounts of assets decommissioned during the year. The assets were decommissioned due to the inefficient nature of the asset and the high cost to maintain. The charge was allocated $67.8 million (2008 — $nil) to the Contract Drilling Services segment and $14.4 million (2008 — $nil) to the Completion and Production Services segment.

NOTE 4. INTANGIBLES

2010	Cost	Accumulated Amortization	Net Book Value
Customer relationships	**$ 4,321**	**$ 2,697**	**$ 1,624**
Patents	**931**	**892**	**39**
Loan commitment fees related to the revolving credit facility	**4,905**	**202**	**4,703**
	$10,157	**$ 3,791**	**$ 6,366**

2009	Cost	Accumulated Depreciation	Net Book Value
Customer relationships	$ 4,488	$ 1,464	$ 3,024
Patents	931	799	132
	$ 5,419	$ 2,263	$ 3,156

Amortization expense for the year ended December 31, 2010 was $1.4 million (2009 — $2.0 million; 2008 — $0.2 million).

NOTE 5. GOODWILL

Balance, December 31, 2008	$841,529
Exchange adjustment	(80,976)
Balance, December 31, 2009	760,553
Exchange adjustment	(23,656)
Balance, December 31, 2010	**$736,897**

NOTE 6. BANK INDEBTEDNESS

At December 31, 2010, Precision had available $25.0 million (2009 — $25.0 million) and US$15.0 million (2009 — $nil) 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 $0.1 million (2009 — $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 7. DISTRIBUTIONS

The beneficiaries of the Trust were the holders of Trust units and the partners of Precision Drilling Limited Partnership ("PDLP") were the holders of exchangeable LP units of the Trust. The distributions made by the Trust to unitholders were determined by the Trustees. PDLP earned interest income from a promissory note that was issued by its subsidiary Precision Drilling Corporation at a rate which is determined by the terms of the promissory note. PDLP in substance paid distributions to holders of exchangeable LP units in amounts equal to the distributions paid to the holders of Trust units. All declared distributions were made to unitholders of record on the last business day of each calendar month.

The Declaration of Trust provided that an amount equal to the taxable income of the Trust not already paid to unitholders in the year will become payable on December 31 of each year such that the Trust would not be liable for ordinary income taxes for such year.

A summary of the distributions is as follows:

	2010	2009
Declared	**$ —**	$ 6,408
Paid	**$ —**	$27,233
Payable in cash at December 31	**$ —**	$ —
Payable in units at December 31	**$ —**	$ —

Included in the 2008 distributions declared was a special non-cash in-kind distribution of $24.0 million ($0.15 per unit). This special distribution was settled on January 15, 2009 through the issuance of units. Immediately following the issuance of these units, the Trust consolidated the units such that the number of Trust units and exchangeable LP units remained unchanged from the number outstanding prior to the special non-cash in-kind distribution.

On February 9, 2009 the Trust announced the suspension of cash distributions.

NOTE 8. LONG—TERM LIABILITIES

	2010	2009
Long-term incentive plans *(Note 13)*	**$ 12,268**	$ 6,602
Long-term workers compensation and other liabilities	**18,051**	20,091
	$ 30,319	$26,693

NOTE 9. LONG—TERM DEBT

	2010	2009
Revolving credit facility	**$ —**	$ —
Unsecured senior notes:		
6.625% senior notes	**646,490**	—
10% senior notes	**175,000**	175,000
Secured facility:		
Term Loan A	**—**	288,887
Term Loan B	**—**	422,097
Revolving credit facility	**—**	—
	821,490	885,984
Less net unamortized debt issue costs	**(16,996)**	(137,036)
	804,494	748,948
Less current portion	**—**	(223)
	$804,494	$ 748,725

(a) Revolving credit facility:

During the fourth quarter of 2010 Precision entered into a new revolving credit facility which provides 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 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 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 2.5:1 and consolidated total debt to EBITDA of less than 3.5:1 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, 2010 Precision complied with the covenants of the revolving credit facility.

The revolving credit facility has a term of three years from its closing, 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 three years from the date of the extension request. The current maturity date of the revolving credit facility is November 17, 2013.

Under the revolving credit facility amounts can be drawn in U.S. dollars and/or Canadian dollars and was undrawn as at December 31, 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, 2010 outstanding letters of credit amounted to 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:

On November 17, 2010, Precision completed the placement of US$650.0 million of senior unsecured notes ("6.625% Senior Notes"). These notes bear interest at a fixed rate of 6.625% per annum, and have a ten year term maturing on November 15, 2020. Interest is payable semi-annually on May 15 and November 15 of each year, commencing on May 15, 2011. These notes 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.

The 6.625% Senior 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.

Precision may redeem, prior to November 15, 2013, up to 35% of the 6.625% Senior Notes with the net proceeds of certain equity offerings. Prior to November 15, 2015, Precision may redeem the notes in whole or in part at 106.625% of their principal amount, plus accrued interest. 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.

During 2009 the Trust completed a private placement of $175.0 million of senior unsecured notes ("10.0% Senior Notes"). These notes bear interest at a fixed rate of 10% per annum, have an eight year term with one-third of the initial principal amount payable on the 6th, 7th and 8th anniversaries of the closing date of the private placement. These notes are unsecured and have been guaranteed by Precision and each subsidiary of Precision that guaranteed the Secured Facility. The terms of the notes contain customary negative and affirmative covenants and events of default. At December 31, 2010 the Corporation complied with the terms of the note agreement. On February 23, 2011, the Corporation fully repaid these senior unsecured notes for $204.3 million including a make whole payment of $26.7 million and accrued interest of $2.6 million.

(c) Secured facility:

On November 17, 2010 outstanding amounts associated with the Secured Facility ("Facility") were repaid in full and the Facility was cancelled. All unamortized debt issue costs associated with the facility was expensed in 2010 (Note 14).

At December 31, 2009 the Term Loan A Facility consisted of a term loan A-1 facility denominated in U.S. dollars in the amount of US$257.5 million and a term loan A-2 facility denominated in Canadian dollars in the amount of $19.3 million As of December 31, 2009, the Term Loan A Facility had an interest rate of approximately 5.6% per annum, before original issue discounts and upfront fees.

At December 31, 2009 the Term Loan B Facility consisted of a term loan B-1 facility denominated in U.S. dollars in the amount of US$314.3 million and a term loan B-2 facility denominated in U.S. dollars in the amount of US$89 million. As of December 31, 2009, the Term Loan B Facility had an interest rate of approximately 9.7% per annum, before amortization of original issue discounts and upfront fees.

The interest rate on loans under the Secured Facility that were denominated in U.S. dollars was, at the option of Precision, either a margin over an adjusted United States base rate (the "ABR rate") or a margin over a Eurodollar rate. The interest rate on loans denominated in Canadian dollars was, at the option of Precision, a margin over the Canadian prime rate or a margin over the bankers' acceptance rate. Certain of the margins on the Revolving Credit Facility were subject to reduction based upon a leverage test and these margins range from 3% to 4% for Eurodollar and bankers acceptance loans and 2% to 3% for ABR and Canadian prime rate loans based on leverage ratios ranging from greater than 1.5:1 to 1:1. Under the terms of the Secured Facility, Precision was required to enter into interest rate contracts if necessary, on or before June 23, 2009, to ensure that at least 50% of the aggregate amounts borrowed under the Secured and Unsecured Facilities are subject to fixed interest rates. During the second quarter of 2009 Precision entered into an interest rate swap arrangement to fix the LIBOR rate at 1.7% on US$250 million of the Term A-1 facility (with scheduled reductions in the balance through September 2012 to match the reduction in principal balances) and paid US$2.1 million ($2.5 million) for an interest rate cap of 3.25% on US$350 million of the Term B Facilities (with scheduled reductions in the balance through December 2013 to match the reduction in principal balances). During the fourth quarter of 2010, these interest rate derivative contracts were terminated for a payment of $2.6 million. For the year ended December 31, 2010 $5.5 million (2009 — $0.4 million) relating to the change in fair value of these contracts was included in financing charges.

The Revolving Credit Facility was available to Precision to finance working capital needs and for general corporate purposes up to a maximum of US$410 million (2009 — US$260 million). Under the Revolving Credit Facility amounts could be drawn in U.S. dollars and/or Canadian dollars and was undrawn as at December 31, 2009. Up to US$200 million of the Revolving Credit Facility was available for letters of credit denominated in United States and/or Canadian dollars and as at December 31, 2009 outstanding letters of credit amounted to US$28.0 million. As of December 31, 2009, the Revolving Credit Facility had an interest rate of approximately 4% per annum, before amortization of original issue discounts, upfront fees and commitment fees.

Principal repayments after 2010 are as follows:

2011 to 2014	$ —
2015	58,333
Thereafter	763,157

NOTE 10. INCOME TAXES

The provision for income taxes differs from that which would be expected by applying Canadian statutory income tax rates as follows:

	2010	2009	2008
Earnings before income taxes	**$ 54,049**	$162,273	$340,574
Federal and provincial statutory rates	**28%**	29%	30%
Tax at statutory rates	**$ 15,134**	$ 47,059	$102,172
Adjusted for the effect of:			
Non-deductible expenses	**15,849**	7,562	372
Non-taxable capital gains	**(2,601)**	(20,136)	—
Income taxed at lower rates	**(43,557)**	(30,983)	—
Income to be distributed to unitholders, not subject to tax in the Trust	**—**	(2,771)	(67,463)
Other	**7,133**	(161)	2,763
Income tax expense	**$ (8,042)**	$ 570	$ 37,844
Effective income tax rate before enacted tax rate reductions	**(15%)**	0%	11%

The net future tax liability is comprised of the tax effect of the following temporary differences:

	2010	2009
Future income tax liability:		
Property, plant and equipment and intangibles	**$764,817**	$747,779
Partnership deferrals	**55,819**	37,674
Other	**2,094**	14,296
	822,730	799,749
Future income tax assets:		
Losses (expire from time to time up to 2030)	**136,056**	84,365
Debt issue costs	**6,802**	3,769
Long-term incentive plan	**7,559**	4,407
Other	**4,773**	4,013
Net future income tax liability	**$667,540**	$703,195

Included in the net future tax liability is $411.3 million of tax effected temporary differences related to the Corporations' United States operations.

NOTE 11. SHAREHOLDERS' CAPITAL

(a) Authorized — unlimited number of voting common shares

— unlimited number of preferred shares, issuable in series

(b) Issued

Common shares	Number	Amount
Balance, May 31, 2010	—	$ —
Issued pursuant to the Arrangement	275,663,344	2,770,853
Options exercised — cash consideration	23,332	122
— reclassification from contributed surplus	—	48
Balance, December 31, 2010	**275,686,676**	**$2,771,023**

The following provides a continuity of Trust units and Exchangeable LP units up to the Conversion on June 1, 2010.

Trust units	Number	Amount
Balance, December 31, 2007	125,587,919	1,440,543
Issued on the acquisition of Grey Wolf, Inc.	34,435,724	889,085
Issued on retraction of exchangeable LP units	18,422	209
Issued and consolidated pursuant to special distribution *(Note 7)*	—	24,006
Balance, December 31, 2008	160,042,065	2,353,843
Issued for cash on February 18, 2009	46,000,000	217,281
Issued for cash pursuant to private placement	35,000,000	70,181
Issued upon exercise of rights on June 4, 2009	34,441,950	103,326
Issued on retraction of exchangeable LP units	32,763	377
Unit issue costs, net of related tax effect of $1.9 million	—	(10,489)
	275,516,778	2,734,519
Warrants issued pursuant to private placement	—	34,819
Balance, December 31, 2009	275,516,778	$2,769,338
Issued on redemption of non-management directors DSUs	28,586	154
Cancellation of units owned by dissenting shareholders	(840)	(9)
Balance, May 31, 2010	275,544,524	$2,769,483

Exchangeable LP units	Number	Amount
Balance, December 31, 2007	170,005	1,933
Redeemed on retraction of exchangeable LP units	(18,422)	(209)
Issued and consolidated pursuant to special distribution (Note 7)	—	23
Balance, December 31, 2008	151,583	1,747
Redeemed on retraction of exchangeable LP units	(32,763)	(377)
Balance, December 31, 2009 and May 31, 2010	118,820	$ 1,370

	2010		2009	
Summary as at December 31, 2009 and May 31, 2010	Number	Amount	Number	Amount
Trust units	275,544,524	$2,769,483	275,516,778	$2,769,338
Exchangeable LP units	118,820	1,370	118,820	1,370
Unitholders' capital	275,663,344	$2,770,853	275,635,598	$2,770,708

Pursuant to the Arrangement, any unitholder of the Trust could dissent and be paid the fair value of the units, being the trading price of Trust units at the close of business on the last business day prior to the Annual and Special Meeting of Unitholders on May 11, 2010. As a result a total of 840 units were repurchased for cancellation for six thousand dollars, of which a discount of three thousand dollars over the stated capital was credited to contributed surplus.

(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, 2010.

(d) Contributed surplus

Balance, December 31, 2007	$ 307
Share based compensation expense *(Note 13(c))*	691
Balance, December 31, 2008	998
Share based compensation expense *(Notes 13(c) and 13(d))*	3,065
Balance, December 31, 2009	4,063
Share based compensation expense *(Notes 13(c) and 13(d))*	6,607
Reclassification to common shares on exercise of options	(48)
Redemption of non-management directors DSUs	(154)
Cancellation of units of dissenting unitholders	3
Balance, December 31, 2010	**$10,471**

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Balance, December 31, 2008	$ 15,359
Unrealized foreign currency translation gains	(312,856)
Balance, December 31, 2009	(297,497)
Unrealized foreign currency translation losses	(90,213)
Foreign exchange gain on net investment hedge with U.S. denominated debt, net of tax of $2,148	14,817
Balance, December 31, 2010	**$(372,893)**

NOTE 13. UNIT BASED COMPENSATION PLANS

(a) Officers and employees

During 2009 Precision introduced two new share based incentive plans to replace the Performance Saving Plan and the Long-Term Incentive Plan. Under the Restricted Share Unit 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 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 achieving a predetermined return on capital employed and share price performance compared to a peer group over the three-year period. As at December 31, 2010 $4.8 million (2009 — $2.5 million) is included in accounts payable and accrued liabilities and $12.3 million (2009 — $4.6 million) in long-term liabilities for the plans. Included in net earnings for the year ended December 31, 2010 is an expense of $12.5 million (2009 — $7.1 million; 2008 — $nil).

Notwithstanding that the Performance Savings Plan was replaced effective January 1, 2009 certain liabilities 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 prior to the conversion to a corporation were adjusted for each distribution to unitholders by issuing additional DSUs based on the weighted average trading price on the Toronto Stock Exchange for the five days immediately following the ex-distribution date. All DSUs 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, December 31, 2007	76,729
Issued, including as a result of distributions	31,006
Redeemed on employee resignations and withdrawals	(24,300)
Balance, December 31, 2008	83,435
Issued, including as a result of distributions	211,156
Redeemed on employee resignations and withdrawals	(48,675)
Balance, December 31, 2009	245,916
Redeemed on employee resignations and withdrawals	(78,474)
Balance, December 31, 2010	**167,442**

As at December 31, 2010 $1.7 million (2009 — $1.9 million) is included in accounts payable and accrued liabilities for outstanding DSUs. Included in net earnings for the year ended December 31, 2010 is an expense of $0.3 million (2009 — $1.0 million expense; 2008 — $0.4 million expense recovery).

In conjunction with the acquisition of Grey Wolf, Inc. ("Grey Wolf") (Note 19) the Corporation instituted a Share Appreciation Rights ("SAR") plan. Under this U.S. dollar denominated plan, eligible participants were granted SARs 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. Prior to the conversion to a corporation, the exercise price of the SARs was adjusted by the aggregate unit distributions paid or payable on Trust units from the grant date to the exercise date. The SARs vest over a period of five years and expire ten years from the date of grant.

Share Appreciation Rights	Outstanding	Range of Exercise Price *(US $)*	Weighted Average Exercise Price *(US $)*	Exercisable
Outstanding at December 31, 2007	—	$ —	$ —	—
Granted	925,746	9.26 — 17.92	14.86	
Outstanding at December 31, 2008	925,746	9.26 — 17.92	14.86	469,267
Forfeitures	(128,206)	9.26 — 17.38	15.31	
Outstanding at December 31, 2009	797,540	9.26 — 17.92	14.79	607,168
Forfeitures	(51,925)	9.26 — 17.38	14.81	
Outstanding at December 31, 2010	**745,615**	**$9.26 — 17.92**	**$ 14.79**	**707,327**

	Total SARs Outstanding			Exercisable SARs	
Range of Exercise Prices *(US $)*	Number	Weighted Average Exercise Price *(US $)*	Weighted Average Remaining Contractual Life *(Years)*	Number	Weighted Average Exercise Price *(US $)*
$9.26 — 11.99	71,380	$ 9.26	3.23	71,380	$ 9.26
12.00 — 14.99	115,478	13.26	4.10	115,478	13.26
15.00 — 17.92	558,757	15.81	6.42	520,469	15.86
$9.26 — 17.92	745,615	$ 14.79	5.76	707,327	$ 14.77

As at December 31, 2010 $30,000 (2009 — $nil) is included in accounts payable and accrued liabilities for outstanding SARs. Included in net earnings for the year ended December 31, 2010 is an expense of $30,000 (2009 — $nil; 2008 — $nil).

(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. Included in net earnings for the year ended December 31, 2010 is an expense recovery of $0.1 million (2009 — $0.4 million expense recovery; 2008 — $21,000 expense).

(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. Prior to the conversion to a corporation, cash distributions to unitholders declared by the Trust prior to redemption were reinvested into additional deferred share units on the date of distribution. 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 Share Units	Outstanding
Balance, December 31, 2007	18,280
Granted	33,058
Issued as a result of distributions	3,205
Balance, December 31, 2008	54,543
Granted	234,142
Issued as a result of distributions	2,047
Balance, December 31, 2009	290,732
Granted	131,571
Redeemed	(28,586)
Balance, December 31, 2010	**393,717**

For the year ended December 31, 2010 the Corporation expensed $1.0 million (2009 — $1.3 million; 2008 — $0.7 million) as share based compensation, 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, 4,047,955 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 vests 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 December 31, 2008	—			—
Granted	1,199,625	$5.22 — 7.26	$ 5.85	
Forfeitures	(10,000)	5.85 — 5.85	5.85	
Outstanding as at December 31, 2009	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**

U.S. share options	Options Outstanding	Range of exercise price *(US $)*	Weighted average exercise price *(US $)*	Options exercisable
Outstanding as at December 31, 2008	—			—
Granted	729,575	$4.95 — 7.02	$ 4.96	
Forfeitures	(131,500)	4.95 — 4.95	4.95	
Outstanding as at December 31, 2009	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**

The range of exercise prices for options outstanding at December 31, 2010 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	1,140,034	$ 5.85	5.35	379,872	$ 5.85
7.00 — 8.59	1,201,735	8.56	6.13	6,141	8.45
$5.22 — 8.59	2,341,769	$ 7.24	5.75	386,013	$ 5.89

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	504,834	$ 4.95	5.30	156,486	$ 4.95
6.00 — 8.06	876,520	7.81	6.24	1,691	7.02
$4.95 — 8.06	1,381,354	$ 6.77	5.89	158,177	$ 4.97

The per option weighted average fair value of the share options granted during 2010 was $3.78 (2009 — $2.57) estimated on the grant date using the Black-Scholes option pricing model with the following assumption: average risk-free interest rate 2% (2009 — 2%), average expected life of four years (2009 — four years), expected forfeiture rate of 5% (2009 — 5%) and expected volatility of 59% (2009 — 56%). Included in net earnings for the year ended December 31, 2010 is an expense $5.6 million (2009 — $1.7 million).

NOTE 14. FINANCE CHARGES

	2010	2009	2008
Interest:			
Long-term debt	**$ 67,570**	$101,108	$13,680
Other	**97**	2,883	151
Income	**(803)**	(483)	(455)
Amortization of debt issue costs	**27,097**	25,681	798
Accelerated amortization of debt issue costs from voluntary debt repayments	**1,590**	8,313	—
Loss on settlement of debt facilities *(Note 9)*	**115,776**	9,899	—
	$211,327	$147,401	$14,174

NOTE 15. 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 2010 was $7.2 million (2009 — $4.4 million; 2008 — $5.7 million).

NOTE 16. COMMITMENTS

The Corporation has commitments for operating lease agreements, primarily for vehicles and office space, in the aggregate amount of $78.2 million. Additionally, the Corporation has commitments with a drilling rig manufacturer for the construction, or partial construction, of two drilling rigs in the amount of $16.5 million (US$16.6 million). Expected payments over the next five years are as follows:

2011	$29,667
2012	9,648
2013	9,722
2014	8,040
2015	7,227

Rent expense included in the statements of earnings is as follows:

2010	$ 7,514
2009	6,937
2008	3,636

NOTE 17. PER SHARE AMOUNTS

The following tables reconcile the net earnings and weighted average shares outstanding used in computing basic and diluted earnings per share:

(Stated in thousands)	**2010**	2009	2008
Net earnings – basic	**$62,091**	$161,703	$302,730
Impact of assumed conversion of convertible debt, net of tax	**—**	1,229	164
Net earnings – diluted	**$62,091**	$162,932	$302,894

(Stated in thousands)	**2010**	2009	2008
Weighted average shares outstanding – basic	**275,655**	243,748	126,507
Effect of rights offering	**—**	6,177	9,061
Weighted average shares outstanding – basic	**275,655**	249,925	135,568
Effect of warrants	**8,787**	5,261	—
Effect of stock options and other equity compensation plans	**619**	181	33
Effect of convertible debt	**—**	3,896	372
Effect of rights offering	**—**	342	29
Weighted average shares outstanding – diluted	**285,061**	259,605	136,002

NOTE 18. SIGNIFICANT CUSTOMERS

During the year ended December 31, 2010 no one customer accounted for more than 10% of the Corporation's revenue compared to the years ended December 31, 2009 and 2008 where one customer accounted for 12% and 13% of the Corporation's revenue, respectively. As at December 31, 2010 one customer accounted for 11% of the trade accounts receivable balance (2009 – 10%; 2008 – 11%).

NOTE 19. BUSINESS ACQUISITIONS

Acquisitions have been accounted for by the purchase method with results of operations acquired included in the consolidated financial statements from the closing date of acquisition.

On December 23, 2008 Precision acquired all the issued and outstanding shares of Grey Wolf, Inc. Grey Wolf provided land based daywork and turnkey contract drilling services to the oil and gas industry in the United States and Mexico. The acquisition facilitated and accelerated Precision's organic expansion into the United States market and provided a foundation for future international expansion. Intangible assets acquired relate to customer relationships. The Grey Wolf operations have been included in the Contract Drilling Services segment.

On July 31, 2008, Precision acquired six service rigs and related equipment from Rick's Well Servicing Ltd. ("RWS") a privately owned well servicing company based in Virden, Manitoba. The acquisition represented all of the operating assets of RWS and Precision will maintain and operate out of the RWS facility. The acquisition strengthened Precision's product offering in south-eastern Saskatchewan and south-western Manitoba. Intangible assets acquired relate to customer lists. The operations of RWS have been included in the Completion and Production Services segment.

The details of these acquisitions are as follows:

	Grey Wolf	RWS	Total
Net assets at assigned values:			
Working capital	$ 470,586(1)	$ 19	$ 470,605
Property, plant and equipment	1,869,875	10,542	1,880,417
Intangible assets	4,428	1,128	5,556
Goodwill (no tax basis)	553,335	3,830	557,165
Long-term liabilities	(23,308)	–	(23,308)
Long-term debt	(319,115)	–	(319,115)
Future income taxes	(553,682)	–	(553,682)
	$2,002,119	$15,519	$2,017,638
Consideration:			
Cash	$1,113,034	$15,519	$1,128,553
Trust units	889,085	–	889,085
	$2,002,119	$15,519	$2,017,638

(1) Working capital includes cash of $360,161

NOTE 20. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with Canadian GAAP which conform with United States generally accepted accounting principles (U.S. GAAP) in all material respects, except as follows:

(a) Income taxes

On December 31, 2010 Precision had $54.8 million (2009 – $48.7 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, 2010 is interest and penalties of $10.3 million (2009 – $8.7 million). Under U.S. GAAP, unrecognized tax benefits are classified as current or long-term liabilities as opposed to future income tax liabilities.

Reconciliation of unrecognized tax benefits

Year ended December 31,	**2010**	2009
Unrecognized tax benefits, beginning of year	**$48,652**	$ 56,563
Additions:		
Prior year's tax positions	**6,825**	2,514
Reductions:		
Prior year's tax positions	**(652)**	(10,425)
Unrecognized tax benefits, end of year	**$54,825**	$ 48,652

It is anticipated that approximately $24.4 million (2009 – $23.9 million) of an unrecognized tax position that relates to prior year activities will be realized during the next 12 months and has been classified as a current liability. 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.

There is no difference between the amounts recorded for tax exposures under Canadian and U.S. GAAP.

(b) Equity settled share based compensation

As described in Note 13(c), Precision has an equity settled share based compensation plan for non-management directors. Prior to the conversion from an income trust to a corporation, Trust units issued upon settlement of this plan were redeemable therefore under U.S. GAAP 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. After the conversion no difference between U.S. and Canadian GAAP exists

As described in Note 13(d), Precision has an equity settled share option plan for employees. Prior to the conversion from an income trust to a corporation, Trust units issued upon settlement of this plan were redeemable therefore under U.S. GAAP were accounted for as a liability based award. The liability was re-measured at fair value, 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 fair value charged to statement of earnings as compensation expense over the remaining service period of the awards.

Additional disclosures required by U.S. GAAP with respect to Precision's equity settled share based compensation plans are as follows:

As at December 31, 2010	**Options**	**Directors' DSUs**
Number vested and expected to vest	**3,564,176**	**393,717**
Weighted average exercise price (1)	**$ 7.07**	**$ —**
Aggregate intrinsic value (2)	**$ 9,090**	**$ 3,780**
Weighted average remaining life *(years)*	**5.6**	**—**

(1) No proceeds are received upon exercise of Directors DSUs.

(2) Based on December 31, 2010 closing price for Precision's common shares on the Toronto Stock Exchange.

As at December 31, 2009	Options	Directors' DSUs
Number vested and expected to vest	1,698,315	290,732
Weighted average exercise price (1)	$ 5.63	$ —
Aggregate intrinsic value (2)	$ 3,425	$ 2,224
Weighted average remaining life *(years)*	6.3	—

(1) No proceeds are received upon exercise of Directors DSUs.

(2) Based on December 31, 2010 closing price for Precision's common shares on the Toronto Stock Exchange.

544,490 share options were exercisable at December 31, 2010 (2009 — nil) and all Directors DTUs were vested at December 31, 2010 and 2009.

(c) Cash settled share based compensation

As described in Note 13(a), Precision has a cash settled share appreciation rights plan. Under Canadian GAAP this plan is treated as a liability based compensation plan and recorded at its intrinsic value. Under U.S. GAAP rights issued under this plan would be measured at their fair value, and re-measured at fair value at each reporting date with the change in the obligation charged as share based compensation. None of these rights were exercised during 2010 and 2009.

Additional disclosures required by U.S. GAAP with respect to Precision's cash settled share based compensation plan are as follows:

As at December 31, 2010	**SARs**
Number vested and expected to vest	**745,615**
Weighted average exercise price	**$ 14.71**
Aggregate intrinsic value (1)	**$ 30**
Weighted average remaining life *(years)*	**5.8**
Number exercisable	**707,327**
Weighted average exercise price	**$ 14.69**
Aggregate intrinsic value (1)	**$ 30**
Weighted average remaining life *(years)*	**5.7**

(1) Based on December 31, 2010 closing price for Precision's common shares on the Toronto Stock Exchange.

As at December 31, 2009	SARs
Number vested and expected to vest	757,663
Weighted average exercise price	$ 15.48
Aggregate intrinsic value (1)	$ —
Weighted average remaining life *(years)*	6.8
Number exercisable	607,168
Weighted average exercise price	$ 15.33
Aggregate intrinsic value (1)	$ —
Weighted average remaining life *(years)*	6.5

(1) Based on December 31, 2009 closing price for Precision's Trust units on the Toronto Stock Exchange.

(d) Redemption of Trust units

Prior to the conversion from an income trust to a corporation, as per the Declaration of Trust, Trust units were redeemable at any time on demand by the unitholder for cash and notes. Under U.S. GAAP, the amount included on the consolidated balance sheet for Unitholders' equity was classified as temporary equity and recorded at an amount equal to the redemption value of the Trust units as at the balance sheet date. The same accounting treatment was applied to the exchangeable LP units. The redemption value of the Trust units and the exchangeable LP units was determined with respect to the trading value of the Trust units as at each balance sheet date, and the amount of the redemption value was classified as temporary equity. Changes (increases and decreases) in the redemption value during a period resulted in a change to temporary equity and were charged to retained earnings. Upon conversion to a corporation the redemption value on the conversion date that was recorded as temporary equity was reclassified to shareholders' equity.

(e) Debt issuance costs

Under U.S. GAAP debt issuance costs are recorded as a deferred charge and amortized over the term of the debt instrument. Canadian GAAP requires that such costs be presented as a reduction of the related debt, resulting in a $17.0 million reclassification from long-term debt to other noncurrent assets at December 31, 2010 (2009 – $137.0 million).

(f) Goodwill

In 2000 the Trust adopted the asset and liability method of accounting for future income taxes without restatement of prior years. As a result, the Trust recorded an adjustment to retained earnings and future tax liability in the amount of $70.0 million at January 1, 2000. U.S. GAAP requires the use of the asset and liability method which substantially conforms to the Canadian GAAP accounting standard adopted in 2000. Application of U.S. GAAP in years prior to 2000 would have resulted in $70.0 million of additional goodwill being recognized as at January 1, 2000 as opposed to an implementation adjustment to retained earnings allowed under Canadian GAAP. Prior to 2002 goodwill was amortized under Canadian and U.S. GAAP. As a result, $7.0 million of amortization was recorded on the additional goodwill in 2000 and 2001 under U.S. GAAP. In 2009 and 2010 the U.S. GAAP financial statements reflect an increase in goodwill of $63.0 million and a corresponding increase in retained earnings.

(g) New accounting policies adopted

On January 1, 2010, Precision adopted the FASB Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements ("FASB ASU 2010-06"). FASB ASU 2010-06 requires the disclosures about the transfers in and out of Levels 1 and 2 and information about purchases, sales, issuances and settlements for Level 3 activities. It also clarifies requirements for existing fair value disclosures with respect to the level of disaggregation required within the fair value hierarchy and inputs and valuation techniques used to measure fair value. The adoption of this standard did not have a significant impact on the disclosure in Precision's financial statements.

(h) Fair value disclosure

The fair value disclosures required under U.S. GAAP are not significantly different than Canadian GAAP (see Note 22) except Canadian GAAP requires fair value disclosures for only financial assets and liabilities. In 2009, Precision recorded an impairment charge of $82.2 million on decommissioning certain assets. The estimated fair value of the decommissioned assets was based on level three inputs. An assessment was made of the condition, life expectancy and potential repair costs of useable components from these assets. Fair value was based on estimated replacement costs in both domestic and international markets for components of similar likeness, condition, age and remaining life.

The application of U.S. GAAP accounting principles would have the following impact on the consolidated financial statements:

Consolidated Statements of Earnings

Years ended December 31,	**2010**	2009	2008
Net earnings under Canadian GAAP	**$62,091**	$161,703	$302,730
Adjustments under U.S. GAAP:			
Equity-based compensation expense	**(135)**	(1,610)	183
Net earnings under U.S. GAAP	**$61,956**	$160,093	$302,913
Net earnings per share under U.S. GAAP:			
Basic	**$ 0.22**	$ 0.64	$ 2.23
Diluted	**$ 0.22**	$ 0.62	$ 2.23

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31,	**2010**	2009	2008
Net earnings under U.S. GAAP	**$ 61,956**	$ 160,093	$302,913
Unrealized gain (loss) on translation of assets and liabilities of self–sustaining operations denominated in foreign currency	**(90,213)**	(312,856)	11,222
Foreign exchange gain on net investment hedge with U.S. denominated debt, net of tax of $2,148	**14,817**	—	—
Comprehensive income (loss) under U.S. GAAP	**$(13,440)**	$(152,763)	$314,135

Consolidated Statements of Retained Earnings (Deficit)

Years ended December 31,	**2010**	2009	2008
Retained earnings (deficit) under U.S. GAAP, beginning of year	**$1,040,829**	$1,060,802	$ (350,898)
Net earnings under U.S. GAAP	**61,956**	160,093	302,913
Distributions declared	**—**	(6,408)	(224,688)
Change in redemption value of temporary equity	**268,890**	(173,658)	1,333,475
Retained earnings under U.S. GAAP, end of year	**$1,371,675**	$1,040,829	$1,060,802

Consolidated Balance Sheets

	2010		2009	
As at December 31,	**As reported**	**U.S. GAAP**	As reported	U.S. GAAP
Current assets	**$ 676,665**	**$ 676,665**	$ 449,459	$ 449,459
Income taxes recoverable	**64,579**	**64,579**	64,579	64,579
Other long-term assets	**—**	**16,996**	—	137,036
Property, plant and equipment	**2,812,281**	**2,812,281**	2,913,966	2,913,966
Intangibles	**6,366**	**6,366**	3,156	3,156
Goodwill	**736,897**	**799,926**	760,553	823,582
	$4,296,788	**$4,376,813**	$4,191,713	$4,391,778
Current liabilities	**$ 216,516**	**$ 243,095**	$ 128,599	$ 158,482
Long-term liabilities	**30,319**	**30,319**	26,693	26,693
Long-term debt	**804,494**	**821,490**	748,725	885,761
Future income taxes	**667,540**	**611,899**	703,195	654,056
Other long-term liabilities	**—**	**30,422**	—	24,711
Temporary equity	**—**	**—**	—	1,898,743
Shareholders' capital	**2,771,023**	**1,630,167**	—	—
Unitholders' capital	**—**	**—**	2,770,708	—
Contributed surplus	**10,471**	**10,639**	4,063	—
Accumulated other comprehensive loss	**(372,893)**	**(372,893)**	(297,497)	(297,497)
Retained earnings	**169,318**	**1,371,675**	107,227	1,040,829
	$4,296,788	**$4,376,813**	$4,191,713	$4,391,778

(i) Supplemental Guarantor Information

As discussed in Note 9 the Corporation issued US$650.0 million in senior unsecured notes due on November 15, 2020 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, 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 $229.2 million, or significant independent operations except for general and administrative costs of $40.5 million and financing charges of $211.3 million.

Separate financial statements and other disclosures concerning the guarantor subsidiaries have not been presented for the years ended December 31, 2009 and 2008 as the parent company at the time, Precision Drilling Trust, had no significant independent assets or operations and the assets and operations of its wholly owned non-guarantor subsidiaries were not significant.

NOTE 21. SEGMENTED INFORMATION

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, procurement and distribution of oilfield supplies, camp and catering services, and manufacture, sale and repair of drilling equipment. Completion and Production Services includes service rigs, snubbing units, wastewater treatment units, and oilfield equipment rental.

2010	**Contract Drilling Services**	**Completion and Production Services**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Revenue	**$ 1,212,656**	**$ 227,835**	**$ –**	**$ (10,838)**	**$1,429,653**
Segment profit (loss) (1)	**260,459**	**37,667**	**(45,462)**	**–**	**252,664**
Depreciation and amortization	**156,179**	**21,491**	**5,049**	**–**	**182,719**
Total assets	**3,550,844**	**395,109**	**350,835**	**–**	**4,296,788**
Goodwill	**624,758**	**112,139**	**–**	**–**	**736,897**
Capital expenditures	**158,575**	**12,134**	**5,192**	**–**	**175,901**

2009	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	$ 1,030,852	$ 176,422	$ –	$ (9,828)	$1,197,446
Segment profit (loss) (1)	210,784	10,934	(34,890)	–	186,828
Depreciation and amortization	118,889	17,186	1,925	–	138,000
Total assets	3,566,078	388,245	237,390	–	4,191,713
Goodwill	648,414	112,139	–	–	760,553
Capital expenditures	182,855	2,897	7,683	–	193,435

2008	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	$ 809,317	$ 308,624	$ –	$ (16,050)	$1,101,891
Segment profit (loss) (1)	302,061	86,088	(35,442)	–	352,707
Depreciation and amortization	57,076	22,966	3,787	–	83,829
Total assets	4,289,517	448,697	95,488	–	4,833,702
Goodwill	729,390	112,139	–	–	841,529
Capital expenditures*	202,863	23,713	3,003	–	229,579

** Excludes business acquisitions*

(1) Segment profit (loss) is defined as revenue less operating, general and administrative and depreciation and amortization. A reconciliation of segment profit (loss) to earnings before income taxes is as follows:

	2010	2009	2008
Total segment profit (loss)	**$ 252,664**	$ 186,828	$352,707
Add (deduct):			
Foreign exchange	**12,712**	122,846	2,041
Finance charges	**(211,327)**	(147,401)	(14,174)
Earnings before income taxes	**$ 54,049**	$ 162,273	$340,574

The Trust's operations are carried on in the following geographic locations:

2010	**Canada**	**United States**	**International**	**Inter-segment Eliminations**	**Total**
Revenue	**$ 772,332**	**$ 634,885**	**$ 27,239**	**$ (4,803)**	**$1,429,653**
Total assets	**1,818,875**	**2,422,842**	**55,071**	**—**	**4,296,788**

2009	Canada	United States	International	Inter-segment Eliminations	Total
Revenue	$ 569,013	$ 608,109	$ 23,748	$ (3,424)	$ 1,197,446
Total assets	1,639,046	2,498,909	53,758	—	4,191,713

2008	Canada	United States	International	Inter-segment Eliminations	Total
Revenue	$ 909,001	$ 189,796	$ 4,686	$ (1,592)	$ 1,101,891
Total assets	1,741,462	3,033,378	58,862	—	4,833,702

NOTE 22. FINANCIAL INSTRUMENTS

(a) Fair value

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 6.625% senior notes approximates their face value at December 31, 2010 due to the short period that has elapsed since there issuance. The fair value of the 10% senior notes at December 31, 2010 was approximately $200 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.

The following table presents Precision's fair value hierarchy for those financial assets and liabilities carried at fair value at December 31, 2009. There were no transfers between level I and level II during the year.

Description	Carrying Amount of Asset at December 31, 2009	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Interest rate swap	$ 2,378	$ –	$ 2,378	$ –
Interest rate cap	493	–	493	–

(b) 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. The Corporation does not have any significant accounts receivable at December 31, 2010 that are past due and uncollectible.

As at December 31, 2010 the Corporation's allowance for doubtful accounts was $12.8 million (2009 – $16.3 million). Included in net earnings for the year ended December 31, 2010 is an expense of $1.1 million (2009 – $12.0 million) related to a provision for doubtful accounts.

(c) Interest rate risk

As at December 31, 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. In 2009 if interest rates applying to long-term debt had been one percent or 100 basis points lower or higher, with all other variables held constant, earnings from continuing operations would have changed by approximately $2.6 million.

(d) 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 at December 31, 2010:

	Canadian Operations (1)	U.S. Operations
Cash	$ 144,094	$ 41,887
Accounts receivable	189	177,044
Accounts payable and accrued liabilities	(6,048)	(109,804)
Long-term liabilities, excluding long-term incentive plans	–	(18,149)
Net foreign currency exposure	$ 138,235	$ 90,978
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on net earnings	$ 1,382	$ –
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on comprehensive income	$ –	$ 910

(1) Excludes US$650 million of long-term debt that has been designated as a hedge of the Corporation's net investment in certain self-sustaining foreign operations.

(e) 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, 2010:

(Stated in thousands)	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt	$ –	$ –	$ –	$ –	$ 58,333	$ 763,157	$ 821,490
Interest on long-term debt (1)	60,330	60,330	60,330	60,330	56,441	218,389	516,150
Commitments	29,667	9,648	9,722	8,040	7,228	30,415	94,720
Total	$89,997	$69,978	$70,052	$68,370	$122,002	$1,011,961	$1,432,360

(1) Interest has been calculated based upon debt balances, interest rates and foreign exchange rates in effect as at December 31, 2010 and excludes amortization of long-term debt issue costs.

NOTE 23. 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, 2010 and 2009 these ratios were as follows:

	2010	2009
Long-term debt	**$ 804,494**	$ 748,725
Shareholders' equity	**2,577,919**	2,584,501
Total capitalization	**$3,382,413**	$3,333,226
Long-term debt to long-term debt plus equity ratio	**0.24**	0.22

During the fourth quarter of 2010, Precision pursued market opportunities to put long-term debt financing in place. The Company issued US$650 million aggregate principal amount of 6.625% senior unsecured notes due 2020 in a private placement and entered into a new US$550 million senior secured revolving credit facility expiring in 2013.

As at December 31, 2010 liquidity remains sufficient as Precision has $256.7 million in cash and access to a US$550 million senior secured revolving credit facility (2009 – US$260 million) and $39.9 million (2009 – $25 million) secured operating facilities. The US$550 million Secured Revolver remains undrawn except for US$23.4 million (2009 – US$28 million) in outstanding letters of credit. Availability of the $25 million secured operating facility was reduced by $0.15 million of outstanding letters of credit and, and there was no amount drawn on the US$15 million secured operating facility.

NOTE 24. SUPPLEMENTAL INFORMATION

	2010	2009	2008
Interest paid	**$ 62,976**	$ 103,109	$ 13,394
Income taxes paid	**$ 11,187**	$ 23,697	$ 764
Components of change in non-cash working capital balances:			
Accounts receivable	**$(141,978)**	$ 295,844	$(114,444)
Inventory	**4,028**	(467)	603
Accounts payable and accrued liabilities	**88,290**	(133,419)	56,299
Income taxes	**26,874**	(15,035)	(4,446)
	$ (22,786)	$ 146,923	$ (61,988)
Pertaining to:			
Operations	**$ (69,303)**	$ 173,173	$ (84,571)
Investments	**$ 45,532**	$ (26,250)	$ 22,583
Financing	**$ 985**	$ –	$ –

The components of accounts receivable are as follows:

	2010	2009
Trade	**$254,284**	$185,144
Accrued trade	**123,170**	67,918
Prepaids and other	**37,447**	30,837
	$414,901	$283,899

The components of accounts payable and accrued liabilities are as follows:

	2010	2009
Accounts payable	**$127,708**	$ 53,546
Accrued liabilities:		
Payroll	**43,876**	35,926
Other	**44,069**	38,904
	$215,653	$128,376

NOTE 25. CONTINGENCIES, COMMITMENT 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 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 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 $350 million, including the estimated amount pertaining to the long-term income tax recoverable on the balance sheet for $58 million. On February 9, 2011 the Corporation received a notice of reassessment from Canada Revenue Agency for $216 million relating to a transaction that occurred in the 2005 tax year which is included in the $350 million noted above. The Corporation will appeal this reassessment as it vigorously defends what it believes to be a correct filing position related to this transaction. The appeal process required the Corporation to pay security of approximately $108 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 26. SUBSEQUENT EVENT

On March 15, 2011 the Corporation issued $200 million of 6.50% senior unsecured notes due 2019 in a private placement offering.