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

FORM 40-F

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

or

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

For the fiscal year ended December 31, 2012

Commission file number: 001-14534

PRECISION DRILLING CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

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

Title of each class	**Name of each exchange on which registered**
Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Information filed with this Form:

þ Annual Information Form þ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 276,475,770 Common Shares outstanding as at December 31, 2012.

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

þ Yes ¨ No

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

¨ Yes ¨ No

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

Form	**Registration No.**
S-8	333-167614
F-10	333-167610

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, 2012, 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, 2012, filed as Exhibit 99.2 (“Management’s Discussion and Analysis”).

NOTICES PURSUANT TO REGULATION BTR

None.

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, 2012, 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. During the 2012 fiscal year, the board of directors approved an amended and restated Code. The amendments strengthened the anti-corruption provisions of the Code. The amended and restated Code is filed as an exhibit to this annual report and is available on the Registrant’s website at www.precisiondrilling.com. No waivers have been granted from any provision of the Code during the 2012 fiscal year.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

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

IDENTIFICATION OF THE AUDIT COMMITTEE

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

Chairman: Allen R. Hagerman

Members: William T. Donovan
Brian J. Gibson
Robert J.S. Gibson
Patrick M. Murray
Robert L. Phillips

MINE SAFETY DISCLOSURE

Not applicable.

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 19, 2013

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, 2012.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2012.
99.3	Consolidated Financial Statements for the fiscal year ended December 31, 2012.
99.4	Code of Business Conduct and Ethcis

Exhibit 23.1

KPMG LLP
Chartered Accountants
Bow Valley Square II
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 and use in this annual report on Form 40-F and the incorporation by reference in the registration statement on Form S-8 (No. 333-167614) and the registration statement on Form F-10 (No. 333-167610) of our report dated March 8, 2013, on the consolidated statements of financial position of Precision Drilling Corporation as at December 31, 2012 and December 31, 2011, the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended; and

- the inclusion and use in this annual report on Form 40-F and the incorporation by reference in the registration statement on Form S-8 (No. 333-167614) of our report dated March 8, 2013 on the effectiveness of internal control over financial reporting as of December 31, 2012.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 19, 2013

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.

KPMG Confidential

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 19, 2013

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 19, 2013

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, 2012, 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 19, 2013

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, 2012, 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 19, 2013

Annual Information Form

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IMPORTANT INFORMATION ABOUT THIS DOCUMENT

Throughout this annual information form (AIF), the terms, *we, us, our* and *Precision* mean Precision Drilling Corporation and, where indicated, all of our consolidated subsidiaries and any partnerships that we and/or our subsidiaries are part of.

References to Precision Drilling Trust refer to us when we operated as an income trust. We converted to a corporate structure on June 1, 2010. We have indicated instances in this AIF where references to Precision Drilling Trust include all of the consolidated subsidiaries and any partnerships that the trust and/or its subsidiaries were partners of prior to this date.

Information in this AIF is as of March 19, 2013. All amounts are in Canadian dollars, unless we note otherwise.

About forward-looking information

We disclose forward-looking information to help current and prospective investors understand our future prospects. This AIF contains statements about what we believe, intend and expect about developments, results and events that may or will occur in the future and are forward-looking within the meaning of Canadian securities legislation and 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 in this AIF:

- typically include words and phrases about the future, such as a *nticipate, could, should, can, expect, seek, may, intend, likely, will, plan, estimate* and *believe*
- are based on certain assumptions and analyses based on our experience, understanding of historical trends, current conditions and expected future developments, and other factors we believe are appropriate given the circumstances
- can be affected by known and unknown risks, uncertainties and other factors which could cause actual results to differ materially from our expectations.

Actual results, performance or achievements may be significantly different from what is expressed or implied in the forward-looking information.

Our forward-looking information includes statements about the following, among other things:

- performance of the oil and natural gas industry, including commodity prices
- our capital expenditures and potential international expansion
- the obsolescence of Tier 3 rigs in North American markets over the next few years and Precision exiting the Tier 3 contract drilling business
- the supply and demand for oil and natural gas
- demand for our equipment and services
- the potential impact of current or anticipated regulatory regimes and tax, environmental, health, safety and other laws
- the potential impact of seasonal and weather conditions, competition in markets where we compete, technology advances, finding and retaining employees, reliance on suppliers, credit market conditions, access to additional financing, foreign exchange, international operations as well as other risks and uncertainties discussed herein
- payment of quarterly dividends
- our future growth potential.

Risks and uncertainties

This AIF discusses a number of risks and uncertainties, including the following among others:

- fluctuations in the price and demand for oil and natural gas
- fluctuations in the level of oil and natural gas exploration and development activities
- fluctuations in the demand for contract drilling, directional drilling, well servicing and ancillary oilfield services
- liquidity of the capital markets to fund customer drilling programs
- availability of cash flow, debt and/or equity sources to fund our capital and operating requirements, as needed
- the sustainability of our dividend
- the impact of seasonal and weather conditions on operations and facilities
- competitive operating risks inherent in contract drilling, directional drilling, well servicing and ancillary oilfield services
- ability to improve our rig technology to improve drilling efficiency
- general economic, market or business conditions
- changes in laws or regulations
- availability of qualified personnel, management or other key inputs
- currency exchange fluctuations
- operating in foreign countries
- other unforeseen conditions that could affect the use of our services
- other risks and uncertainties set out in this AIF under the heading *"Risks in Our Business"*.

These risks and uncertainties are also discussed in our annual report and Form 40-F, on file with the Canadian securities commissions on SEDAR (www.sedar.com) and with the SEC on EDGAR (www.sec.gov).

All of the forward-looking information and statements made in this AIF are qualified by these cautionary statements. There can be no assurance that actual results or developments anticipated by us will be realized. We caution you not to place undue reliance on forward-looking information and statements. We will not necessarily update or revise this forward-looking information as a result of new information, future events or otherwise, unless we are required to by law.

About registered trademarks

We own several trademarks, service marks and trade names that we use in our business including:

- *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, the U.S. and other countries
- *Grey Wolf* is a registered trademark of Precision Drilling Corporation in the U.S.
- *Super Series* is a registered trademark of Precision Drilling Corporation in Canada
- *Super Single* is a registered trademark of Precision Drilling Corporation in Canada, the U.S. and other countries
- *Super Triple* is a registered trademark of Precision Drilling Corporation in Canada and the U.S.
- *High Performance, High Value* is a registered trademark of Precision Drilling Corporation in Canada and other countries and is pending in the U.S.

Although the trademarks, service marks and trade names referred to in this AIF or the documents incorporated by reference may be listed without the ®, SM and TM symbols for convenience, we will assert our rights to them to the fullest extent under the law.

ABOUT PRECISION

Precision Drilling Corporation is an independent North American provider of oil and natural gas drilling and drilling-related services and products. We specialize in providing onshore drilling services in most major conventional and unconventional oil and natural gas basins in Canada and the United States (U.S.), and have operations in Mexico and Saudi Arabia and have announced long-term contracts in other areas in the Middle East. We also provide well servicing and ancillary wellsite products and services in Canada and the U.S.

Precision was formed by amalgamation under the Business Corporations Act (Alberta). We previously operated as an income trust, known as Precision Drilling Trust, and converted to a corporate entity on June 1, 2010 under a statutory plan of arrangement. See *Three-year history* for more information.

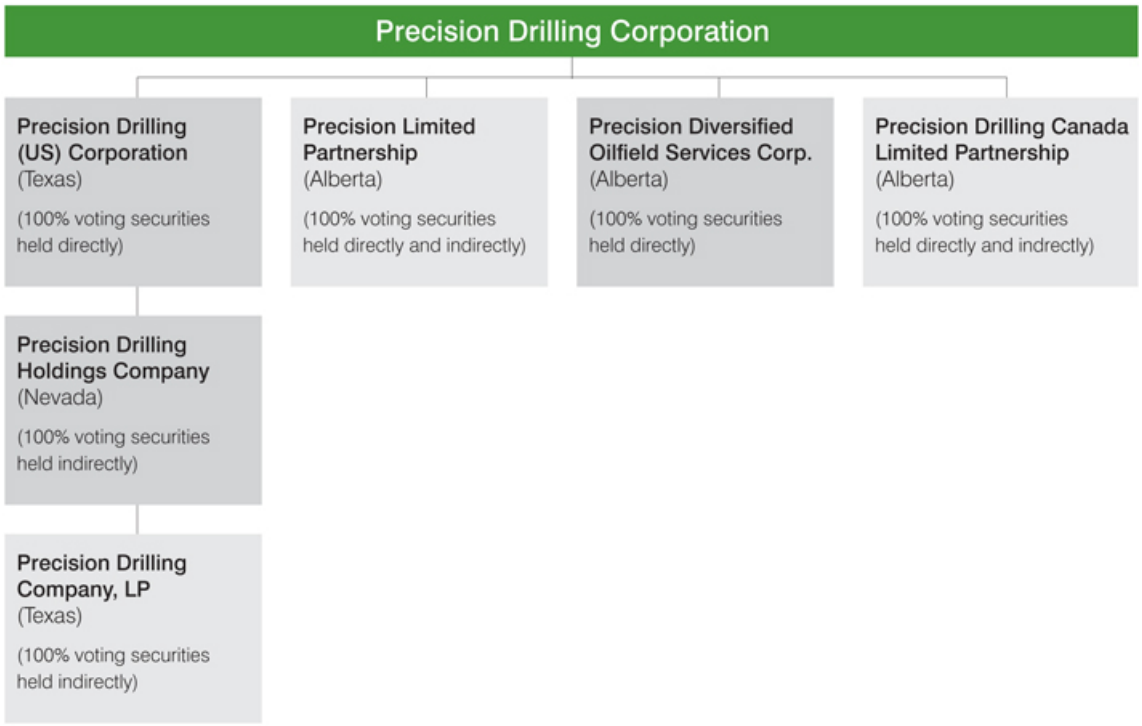
Our common shares trade on the Toronto Stock Exchange (TSX) under the symbol PD and on the New York Stock Exchange (NYSE) under the symbol PDS.

Our principal corporate and registered office is at:
Suite 800, 525 – 8th Avenue S.W.
Calgary, Alberta
Canada T2P 1G1

Phone: 403.716.4500
Fax: 403.264.0251
Email: info@precisiondrilling.com
www.precisiondrilling.com

Our organizational structure

The chart below shows our organizational structure and material subsidiaries or partnerships, including the jurisdiction where each was incorporated, formed or continued, and whether we hold the voting securities directly or indirectly. For simplification, non-material wholly-owned subsidiaries are not included.



Three-year history

2012

Capital expenditures and rig fleet upgrades
In 2012, we placed 36 newly constructed or "new build" Super Series rigs into service under previously negotiated term contracts, including 13 Precision Super Single rigs, six Super Triple rigs and one Super Double rig in Canada and two Precision stretch Super Single rigs and 14 Super Triple rigs in the U.S.

We also delivered 11 upgraded rigs under term contracts in 2012 including six in Canada, one in the U.S. and four internationally.

These rigs were part of our property, plant and equipment capital expenditure program. Our 2012 program totalled $868 million, including $596 million for expansion capital, $130 million for upgrade capital and $142 million for the maintenance of existing assets and infrastructure.

International expansion
We deployed three drilling rigs to Saudi Arabia that began operations in 2012.

We also contracted:
- three upgrade drilling rigs to work on multi-year contracts in Mexico that began operations in 2012 and two additional rigs that are expected to begin operating in 2013
- two upgrade drilling rigs to work on multi-year contracts in the Kurdistan region of Iraq expected to begin operating in 2013
- two new Super Series drilling rigs to work on multi-year contracts in Kuwait beginning in 2014.

Amendments to credit facility

We entered into an amendment to our secured credit facility (as amended, the *secured facility*) which:
- increased the amount available to US$850 million from US$550 million
- extended the maturity date by two years to November 17, 2017
- allows us to pay dividends so long as no default or event of default has occurred
- reduced the rates that apply to certain fees to be paid under the facility.

See *Material debt – Secured facility*.

Annual dividend
We announced an annual dividend of $0.20 per common share, payable quarterly.

We declared our first quarterly dividend of $0.05 per common share, paid on December 28, 2012 to shareholders of record on December 20, 2012.

All dividends on our common shares are "eligible dividends" for Canadian income tax purposes, unless we indicate otherwise.

See *Our capital structure – Dividends*.

Asset writedowns
We decommissioned 52 drilling rigs (42 Tier 3 rigs and 10 Tier 2 rigs). We are exiting the Tier 3 contract drilling rig business and will keep 26 drilling rigs for seasonal, stratigraphic and turnkey drilling work. We refer to these rigs as the PSST rigs. Certain components of the decommissioned rigs will be used in our ongoing operations.

We also recorded an impairment charge to the goodwill attributable to our Canadian directional drilling operations due to the decrease in natural gas well drilling in Canada and the outlook for natural gas pricing.

We recognized a non-cash, pre-tax rig decommissioning charge and goodwill impairment charge of $245 million.

2011

Capital expenditures and rig fleet upgrades
By the end of 2011, we had placed 19 new build Super Series rigs into service under previously negotiated term contracts, including seven Precision Super Single rigs in Canada and one Precision Super Single rig and 11 Super Triple rigs in the U.S. We also delivered 18 upgraded drilling rigs during 2011.

These rigs were part of our property, plant and equipment capital expenditure program. Our 2011 program totalled $726 million, including $455 million for expansion capital and $271 million for the maintenance and upgrade of existing assets and infrastructure.

International expansion
In the fourth quarter, we contracted three rigs for operations in Saudi Arabia to work on multi-year contracts. We delivered the three upgraded rigs to Saudi Arabia from our existing U.S. rig fleet in the fourth quarter of 2011 and first quarter of 2012.

Grey Wolf International opened new offices in Dubai, United Arab Emirates and Bogota, Colombia.

Rig decommissioning
We announced the decommissioning of 36 drilling rigs, including 19 in Canada and 17 in the U.S., and the decommissioning of 13 well servicing rigs in Canada. The drilling rigs were all Tier 3 rigs, which were primarily mechanical, lower horsepower units without advanced technology. We are using certain components of the decommissioned rigs in our ongoing operations.

We recorded a non-cash, pre-tax charge to earnings of $115 million for the decommissioning.

Directional drilling
We closed the acquisition of Axis Energy Services Holdings Inc. which provided directional drilling and measurement while drilling (MWD) services, primarily in Western Canada.

We also closed the acquisition of Drake Directional Drilling, LLC and Drake MWD Services, LLC, which provided directional drilling and MWD services in Texas, Louisiana, Oklahoma and Colorado.

U.S. senior note offering
We completed our offering of US$400 million of 6.50% senior unsecured notes due 2021 (the 2021 Notes) in a private placement. We used the net proceeds to fund our capital expenditure program and for general corporate purposes.

See *Our capital structure – Material debt* for more information.

Credit facility amendment
We entered into an amendment to our secured credit facility which:
- reduced the margins and rates that apply to interest rates and certain fees to be paid under the facility
- extended the maturity by two years to November 17, 2015
- increased the amount of unsecured debt allowed under the facility
- increased the consolidated senior debt to EBITDA (as defined in the secured facility credit agreement, *EBITDA*) ratio to 3:1 from 2.5:1
- increased the consolidated total debt to EBITDA ratio to 4:1 from 3.5:1.

See *Our capital structure – Material debt* for more information.

Canadian senior note offering
We completed our offering of $200 million of 6.50% senior unsecured notes due 2019 (the *2019 Notes*) in a private placement to Canadian investors. We used the net proceeds and cash on hand to in effect repay the $175 million 10% senior unsecured note issued to Her Majesty the Queen in Right of the Province of Alberta, represented by Alberta Investment Management Corporation (AIMCo). The total repayment was approximately $204 million and included $175 million in principal, accrued interest and a make-whole premium of approximately $27 million. The make-whole premium was a charge to earnings. See *Our capital structure – Material debt* for more information.

Tax reassessment
We received a notice of reassessment from the Canada Revenue Agency (CRA) for federal tax and interest relating to a transaction in 2005. We objected to the reassessment and, in 2011, reached agreements with the CRA and Alberta Finance to resolve the results of the prior year audit. We received income tax reassessments from the CRA and Alberta Finance totalling $37 million in income tax plus interest of $13 million. As part of the settlement agreements, we waived all rights to appeal the reassessments.

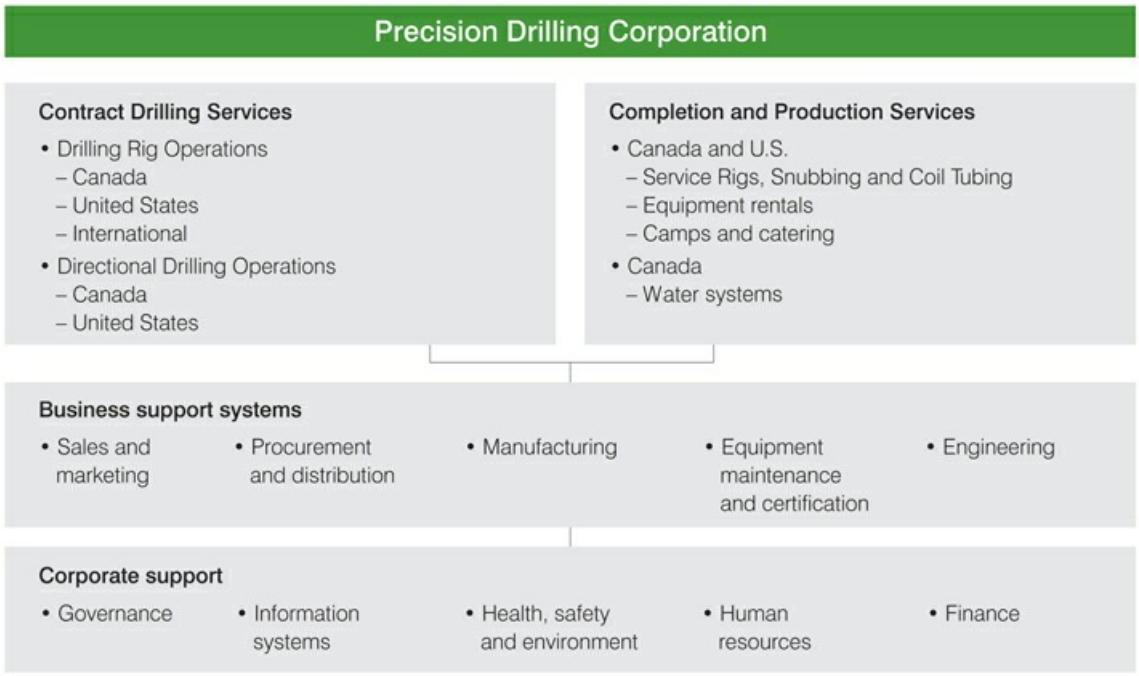
Transition to International Financial Reporting Standards
We began preparing our financial statements under International Financial Reporting Standards (IFRS), and our future financial statements will be prepared in compliance with IFRS as if we had always followed these standards.

The transition to IFRS did not materially affect our debt covenants or affect cash flows. Except for changes to management reports, no significant changes to internal controls over financial reporting or disclosure were required as a result of the transition.

2010
Capital expenditures and rig fleet upgrades In 2010, we delivered four new build Super Series drilling rigs under term contracts and nine upgraded drilling rigs. Total capital spending for 2010 was $176 million of which $71 million related to expansion initiatives.
Senior note offering We completed our offering of US$650 million of 6.625% senior unsecured notes due 2020 (the *2020 Notes*) in a private placement. We used the net proceeds to repay all of our outstanding debt under our then existing secured credit facility and for general corporate purposes. See *Our capital structure – Material debt* for more information.
Credit facility We terminated our then existing secured credit facility when we closed the 2020 Note offering, and entered into our secured facility then in the amount of US$550 million. See *Our capital structure – Material debt* for more information.
The arrangement Precision Drilling Trust converted from an income trust structure to a corporate structure under a statutory plan of arrangement. Holders of the trust units and holders of the exchangeable limited partnership units of Precision Drilling Limited Partnership approved the arrangement at the annual and special meeting on May 11, 2010. Over 99% of the votes cast by the unitholders were in favour of the arrangement. On May 12, 2010, the Alberta Court of Queen's Bench granted the final order required. Under the arrangement, holders of our trust units and exchangeable limited partnership units of Precision Drilling Limited Partnership received one Precision common share for each unit they held.

ABOUT OUR BUSINESSES

We have two business segments – Contract Drilling Services and Completion and Production Services. Both are supported by vertical business support systems and shared corporate and administrative services.



The table below describes the two business segments in more detail and the scope of our services in Canada, the U.S. and internationally:

Contract Drilling Services		
Operates our rigs in Canada, the U.S. and elsewhere internationally Provides onshore well drilling services to exploration and production companies in the oil and natural gas industry At December 31, 2012, the segment consisted of: ¡ 321 land drilling rigs, including: – 186 in Canada – 127 in the U.S. – 3 in Saudi Arabia – 5 in Mexico ¡ approximately 91 directional drilling job capacity in Canada and the U.S. ¡ engineering, manufacturing and repair services primarily for Precision's operations ¡ centralized procurement, inventory and distribution of consumable supplies primarily for our Canadian, U.S. and Mexico operations.	Canada	¡ land drilling services ¡ directional drilling services ¡ procurement and distribution of oilfield supplies ¡ manufacture and refurbishment of drilling and service rig equipment
	United States	¡ land drilling services ¡ directional drilling services ¡ turnkey drilling services ¡ procurement and distribution of oilfield supplies ¡ trucking services for moving Precision rigs
	International	¡ land drilling services

Completion and Production Services		
Comprises a number of businesses providing completion and workover services and ancillary services to oil and natural gas exploration and production companies primarily in Canada, with a growing presence in the U.S. At December 31, 2012, the segment consisted of: ¡ 190 service rigs, including: – 185 in Canada – 5 in the U.S. ¡ 19 snubbing units, including: – 16 in Canada – 3 in the U.S. ¡ 5 coil tubing units, including: – 3 in Canada – 2 in the U.S. ¡ approximately 3,800 oilfield rental items including surface storage, small-flow wastewater treatment, power generation and solids control equipment primarily in Canada ¡ 243 wellsite accommodation units in Canada and 61 in the U.S. ¡ 50 drilling camps and 3 base camps in Canada and 4 drilling camps and 1 base camp in the U.S. ¡ 8 large-flow wastewater treatment units, 6 potable water production units and 11 pump houses in Canada.	Canada	¡ service rigs ¡ snubbing units ¡ coil tubing units ¡ camp and catering services ¡ oilfield surface equipment rental ¡ wellsite accommodations ¡ water system services
	United States	¡ service rigs ¡ snubbing units ¡ coil tubing units ¡ camp and catering services ¡ oilfield surface equipment rental ¡ wellsite accommodations

Revenue

Years ended December 31 *(thousands of Canadian $)*	**2012**	**2011**	**2010**
Contract Drilling Services	$1,725,240	$1,632,037	$1,186,007
Completion and Production Services	326,079	330,225	255,827
Inter-segment eliminations	(10,578)	(11,235)	(12,181)
Total revenue	**$2,040,741**	**$1,951,027**	**$1,429,653**

Contract Drilling Services

Precision Drilling

At the end of 2012, we operated a versatile fleet of 321 land rigs deployed in Canada, the U.S. and internationally.

- *Canada* – we operated the largest fleet of land drilling rigs. We actively marketed 186 drilling rigs located throughout Western Canada, accounting for approximately 23% of the industry's estimated fleet of 821 drilling rigs.
- *United States* – we operated 127 land drilling rigs, the fourth largest fleet, representing approximately four percent of the country's estimated 2,828 total marketed land drilling rigs.
- *Internationally* – we had five land drilling rigs operating in Mexico and three operating in Saudi Arabia.

Drilling contracts

Our contract terms are generally based 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 can vary in length from a day or two on shallow single-well applications to multiple-year, multiple-well drilling programs. Term drilling contracts typically have fixed utilization rates for a minimum of six months, and include penalties for early termination, cost escalations and options for renewing the contract. Short-term contracts that 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. Our new build drilling rigs generally have term contracts in place before the rig is completed and, in most cases, we have term contracts of two to five years before construction begins.

In 2012, we had term contracts for an average of 128 drilling rigs (55 in Canada, 69 in the U.S. and four internationally).

We market our drilling rigs mainly on a regional basis through sales and marketing personnel. We secure contracts to drill wells either through competitive bidding or as a result of relationships and negotiations with customers.

Our contracts in Canada, the U.S. and internationally have been carried out almost exclusively on a daywork basis. Under a daywork contract:

- We provide a drilling rig with required personnel, and the customer supervises the drilling of the well.
- We charge the customer a fixed rate per day regardless of the number of days needed to drill the well.
- Contracts usually 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.
- Generally we do not bear any of the costs arising from downhole risks (such as time delays for various reasons, including a stuck or broken drill string or blowouts).

We also drilled a very small number of wells in Texas and Louisiana near the U.S. Gulf Coast (approximately 3% of our U.S. rig utilization in 2012) on a turnkey basis. Under a turnkey contract we drill a well to an agreed depth for a fixed price. We assume higher risk under a turnkey contract and therefore generally have the potential for greater profit or loss.

Seasonality

Drilling and well servicing activity is affected by seasonal weather patterns and ground conditions. In Canada and the northern U.S., during the second quarter each year, wet weather and the spring thaw make the ground unstable resulting in road restrictions that limit the movement of heavy oilfield equipment and reduces the level of drilling and well servicing activity. In northern Canada, some drilling sites can only be accessed in a very small window in the winter once the terrain is frozen, which is usually late in the fourth quarter. Our business depends, at least in part, upon the severity and duration of the winter season.

Competition

The land drilling industry is highly competitive and fragmented with the top 10 providers owning only approximately 41% of the marketed rig fleet in the U.S. and approximately 79% of the industry fleet in Canada.

Technology is increasingly differentiating the market. Our Tier 1 and Tier 2 rigs represent 92% of our fleet, and higher tiered rigs experience higher utilization levels and more stable dayrates.

Drilling fleet

We categorize our rigs as Tier 1, Tier 2 or PSST rigs based on drilling requirements and mobility. At the end of 2012, we had a fleet of 321 rigs, consisting of 188 Tier 1, 107 Tier 2 and 26 PSST rigs. A list of our contract drilling rigs, including detailed inventory and layout specifications, is available on our website (www.precisiondrilling.com).

Tier 1 Rigs are better suited to meet the challenges of complex customer requirements for resource exploitation in the North America shale and unconventional plays	High performance Super Series rigs, innovative in design, capable of drilling directionally or horizontally, are highly mobile, move with pad walking or skidding systems or require fewer trucking loads *Features* - highly mechanized tubular handling equipment - integrated top drive or top drive adaptability - advanced AC, silicone controlled rectifier (SCR) and mechanical power distribution and control efficiencies - electronic or hydraulic control of the majority of operating parameters - specialized drilling tubulars - high-capacity mud pumps - majority use Range III drill pipe
Tier 2 High performance rigs with new equipment and modifications to improve performance and enhance directional and horizontal drilling capability	High performance rigs, capable of drilling directionally or horizontally, generally less mobile than Tier 1 rigs *Features* - some mechanization of tubular handling equipment - top drive adaptability - SCR or mechanical type power systems - increased hookload and or racking capabilities - upgraded power generating, control systems and other major components - high-capacity mud pumps
PSST Typically conventional mechanical rigs with no automation and lower pumping capacity	Acceptable level of performance for certain drilling requirements but would require major equipment upgrades to meet the criteria of a Tier 2 or Tier 1 rig Other than 26 rigs retained for seasonal, stratigraphic and turnkey drilling work, we have exited the Tier 3 market. We believe that developments in the land drilling industry have made the Tier 3 rigs virtually obsolete in North America.

Our rigs can drill from very shallow wells to very deep or extended-reach wells to depths of 9,000 metres (30,000 feet) or more, are rated up to 4,000 horsepower and can drill virtually all types of onshore conventional and unconventional oil and gas wells in North America. In 2012, we had a footprint in virtually all of the large resource plays in Canada and the U.S., including the Bakken, Cardium, Lower Shaunavon, Montney and Viking formations in Canada and the Bakken, Barnett, Eagle Ford, Granite Wash, Haynesville, Marcellus, Niobrara and West Texas resource plays in the U.S.

Well costs

Several factors contribute to lower customer well costs, including:

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

Directional drilling

Directional drilling involves using specialized tubulars and drill string components to establish and maintain the necessary trajectory of the drill bit to achieve a desired wellbore and bottom of hole location in relation to the surface location. Directional equipment such as mud motors (which are hydraulically driven by the drilling fluid to rotate the drill bit) and MWD systems (which monitor wellbore trajectory and formation characteristics in real time while drilling is in progress) are used in this process.

At the end of 2012, we had approximately 91 directional drilling job capacity in Canada and the U.S. with operational, technical and maintenance facilities in both countries. Centres in Calgary, Alberta and Houston, Texas manage directional drilling operations in the field in real-time.

Grey Wolf International

Grey Wolf International (Grey Wolf) is our platform for the international oil and gas drilling market, and it is actively exploring opportunities in various international markets. International oilfield service operations involve relatively long sales cycles with bidding periods, contract award periods and rig mobilization periods measured in months. Grey Wolf has a regional office in Dubai, United Arab Emirates.

In 2011, Grey Wolf entered multi-year daywork drilling contracts for three land drilling rigs to operate in Saudi Arabia. All three rigs commenced operations in 2012.

Grey Wolf continues to operate two drilling rigs under contracts with a major service provider in Mexico. In 2012, Grey Wolf also contracted five upgraded drilling rigs to work on multi-year contracts for another major service provider in Mexico. Three of the five rigs began operating in 2012 and two are expected to begin operating in 2013.

In late 2012, Grey Wolf also contracted two new build Super Series drilling rigs to work on multi-year contracts in Kuwait beginning in 2014 and two upgraded rigs to work on multi-year contracts in the Kurdistan Region of Iraq.

Rostel Industries

Based in Canada, Rostel Industries manufactures custom drilling rigs and manufactures and refurbishes drilling rig and service rig components. Rostel Industries is fundamental to our vertical integration as approximately 95% of its revenues in 2012 were related to Precision business. Having the in-house ability to repair or provide new components for either drilling or service rigs also improves the efficiency and reliability of our fleets.

Rostel Industries markets specialized services to the energy services industry, including inspection and certification of critical drilling components including overhead equipment, well control equipment and handling tools. Its expertise includes an in-house engineering group that designs and certifies equipment. Rostel Industries also designs and builds a significant portion of the components for the Precision Super Single drilling rigs, and develops products that can be used on other new rigs or to improve the versatility of many of our existing rigs.

Columbia Oilfield Supply and PD Supply

Columbia Oilfield Supply in Canada and PD Supply in the U.S. are general supply warehouses that procure, package and distribute large volumes of consumable oilfield supplies. The two supply warehouses achieve economies of scale through bulk purchasing and standardized product selection and then coordinate distribution to Precision rig sites. Columbia Oilfield Supply and PD Supply play a key role in supply chain management as approximately 96% of their oilfield supply activities support Precision operations in North America.

This reduces the administrative workload for operations staff in the field, enhancing our competitiveness.

Completion and Production Services

Precision Well Servicing

Precision Well Servicing offers a versatile fleet of service rigs for well completion, workover, abandonment, maintenance and re-entry preparation services and snubbing units and coil tubing units for pressure control services. The fleet is strategically positioned throughout Western Canada and the northern and northeastern U.S.

Well service activities

Well servicing and pressure control jobs are generally short duration, preferably during daylight hours, so it is critical for a service rig to be close to customer demand and to move quickly from one site to another. Well servicing requires a unique skill set, and crews must deal with the potential dangers and safety concerns of working with pressurized wellbores. Completion, workover or pressure control services can take a few days to several weeks to complete depending on the depth of the well and the complexity of the completion or workover.

At the end of 2012, Precision Well Servicing had a Canadian industry market share of approximately 19% with a fleet of 185 service rigs, the largest in Western Canada, compared to a Canadian industry fleet average of approximately 1,000 service rigs. We also operated five well service rigs in the U.S. at the end of 2012.

Service rates

Precision Well Servicing typically charges its customers an hourly rate for completion, workover and pressure control services based on factors like market demand in the region, the type of rig deployed and the equipment required.

Service rig fleet

The table below shows the configuration of the Precision Well Servicing fleet. The fleet's operating features are detailed on our website (www.precisiondrilling.com).

As at December 31, 2012:

Type of service rig	Size	Total
Mobile Rigs		
Highly mobile, efficient rig up and rig down, minimize surface disturbance, freestanding design eliminates anchoring, rated up to 550 horsepower	Single Double Slant	90 58 19
Freestanding rigs comprise 77% of the fleet		
Skid Mounted Rigs		
Designed for deeper wells with multi-zone completions or re-completions, service jobs are generally longer duration so rigs move less often, rated up to 860 horsepower	Double	23
Total		**190**

Service rig activities

Well servicing operations have two distinct functions – completions and workovers.

Completions Customers often contract a smaller, specialized service rig to take over from a larger, more expensive drilling rig to prepare a newly drilled well for initial production. The service rig and crew work jointly with other services to open and stimulate the producing zones for initial production.

The demand for well completion services is related to the level of drilling activity in a region, and the demand for completion services is generally more volatile than for workover services.

Workovers Workover services are generally provided according to customer preventive maintenance schedules or on a call-out basis when a well needs major repairs or modifications. Workover services generally involve remedial work like repairing or replacing equipment in the well, enhancing production, re-completing a new producing zone, recovering lost equipment or abandoning the well.

Producing oil and gas wells generally require some type of workover or maintenance during their life cycle. The demand for production or workover services is based on the total number of existing active wells and their age and producing characteristics.

Of our total oil and gas well service rig activity in Canada in 2012:

- workovers and abandonments accounted for approximately 91%, compared to approximately 83% in 2011
- new well completions accounted for approximately 9%, compared to approximately 17% in 2011.

Pressure control services

Snubbing Snubbing is primarily used to enhance production of natural gas wells. Snubbing units perform certain workover and completion activities without neutralizing or "killing" the well. Traditional well servicing operations require pressure in a well to be killed using fluids which may impair production in order to safely perform the services.

At the end of 2012, we marketed 11 portable hydraulic rig-assist snubbing units and five self-contained snubbing units in Western Canada, and one rig-assist and two self-contained snubbing units in the U.S. 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.

Coil tubing services Coil tubing units use a continuous (non-jointed) reel of tubing to perform completion, workover and stimulation services. Coil tubing provides certain advantages over conventional service rigs like working on a well without having to kill it and servicing highly deviated and horizontal wells.

Coil tubing units are highly mobile, rig-up and rig-down in a short time, increase operating efficiency and have a relatively small environmental footprint. These units also operate more efficiently because continuous tubing eliminates jointed tubing connections.

At the end of 2012, Precision operated three coil tubing units in Western Canada and two coil tubing units in the U.S.

Precision Rentals

Precision Rentals provides approximately 3,800 pieces of oilfield rental equipment from five operating centres and 11 stocking points throughout Western Canada, supported by a technical service 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 like Precision Rentals for access to large inventories of drilling, completion and production equipment.

Precision Rentals markets its inventory in distinct product categories:

- surface equipment (including environmental invert drilling mud storage, hydraulic fracturing fluid storage, production tanks and other fluid handling equipment)
- wellsite accommodations (fully equipped units that provide on-site office and lodging for field personnel)
- small-flow wastewater treatment facilities
- power generation equipment
- solids control equipment.

LRG Catering

LRG Catering provides food and accommodation to personnel working at the wellsite, typically in remote locations in Western Canada. LRG Catering has 50 drill camps and three base camps in Western Canada. Precision also had four drill camps and one base camp in the U.S. Each mobile camp includes five or six building units that typically accommodate 20 to 25 members of a rig crew and other personnel and, if required, individual dormitory units that accommodate up to 45 additional personnel.

LRG Catering has also configured several of its camps and dormitories to provide housing and meals for up to 500-man base camps on separate major projects in Western Canada. As the oil and gas industry searches for new reserves in more remote locations, crews need 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, from time to time, other industries operating in remote locations.

Terra Water Systems

Terra Water Systems provides customers with portable wastewater handling, treatment and disposal facilities, potable water production plants and potable water delivery systems for remote sites in Western Canada.

Terra Water Systems has eight large-flow wastewater treatment plants, six potable water production plants and 11 pump houses that are used in base camp and other large remote work site markets. These facilities provide an environmentally sound solution to treating wastewater, eliminating the traditional tank-and-haul process and concerns about the timing, hauling and disposal of effluent. Technical staff visits each facility regularly to conduct sampling and independent laboratory effluent testing as part of its system management. Its wastewater treatment plants are designed to be easy to operate, provide quality treatment of effluent, eliminate odors and align with existing environmental, health and safety regulations for surface release of treated wastewater.

Health, safety and the environment

We have a long-standing commitment to health, safety and the environment in all aspects of our operations. Our *Target Zero* vision promotes continuous safety improvement through awareness and risk reduction, and fosters a culture that never accepts an injury to a Precision employee. We recognize risks at job sites and reduce them so we achieve our goal of zero injuries. In 2012, Precision achieved its best ever safety record measured by the industry standard of total recordable injury frequency.

The table below shows our health and safety performance in 2012 compared to 2011.

Year ended December 31

	2012		2012 vs. 2011
Drilling rigs without a recordable injury	72%	Total hours worked	Increased by 4%
Service rigs without a recordable injury	87%	Frequency of recordable injuries	Decreased by 26%
Drilling rigs without lost time	88%	Frequency of lost-time accidents	Decreased by 29%
Service rigs without lost time	97%		

We continuously review our rig designs and components and use advanced technologies to improve the life cycle, safety and operating efficiency and to reduce energy use, and manage our energy and resources in several ways:

Drilling rigs	design incorporates high-efficiency diesel engines that meet regulatory emission specifications use AC electric power generation, distribution and control systems which incorporate variable frequency drive technologies to increase efficiency and reduce fuel consumption generate heat efficiently by directing air flow from radiators on power generation engines to heat surrounding rig buildings use alternative power sources to generate heat in cold operating conditions and alternative fuels for generating power
Engines	equipped with advanced muffler systems to reduce noise
Engine radiator systems	variable pitch fans reduce horsepower requirements
Rig drawworks	use regenerative breaking to eliminate brake noise from conventional band brake systems
Thermal insulation	used in certain rig buildings to reduce winter heating load requirements

We recognize the importance of climate change and our impact on the environment. Our rigs are designed for high efficiency moving, which reduces the number of trucks needed to relocate a rig to a new customer site. They are also designed and constructed with a “reduced footprint”, so once on location, our rigs require less surface land area to operate. The design of our rig pad is beneficial for high well density drilling programs like for heavy oil because it needs less surface area to operate and eliminates the need for trucks to move between well centres. We also use spill containment devices under our equipment to minimize potential spills around the drill site and limit environmental exposure.

We continue to develop solutions for a sustainable society, and assess alternative methods of fuel types for power and heat generation, noise abatement, carbon emissions and systems for recovering waste energy.

Our people

We had 6,947 employees at the end of 2012, including 1,501 in salaried and 5,446 in hourly positions. Seasonality and economic conditions affect our drilling activity and have a more dramatic impact on hourly than salaried employees. The market for experienced personnel in the oilfield services industry is extremely competitive because of the cyclical nature of the work, uncertainty of continuing employment and generally higher rates of employment over the past decade.

We rely on experienced, well trained personnel. We invest in systems and processes to support employee training, development, leadership and retention. Our talent management system helps us actively develop, nurture and retain people in key positions as well as top performers and potential future leaders. Programs include skill development around leadership, communication and corporate values, and our compensation program focuses on retaining experienced field personnel during all market cycles, focused recruitment initiatives and a performance management system that links compensation to the achievement of specific corporate and individual goals.

Performance excellence is measured through our safety record and reputation, key assets that help us attract and retain employees as manpower shortages are often experienced in the industry in peak operating periods. Our priority is retaining experienced employees, particularly in driller, rig manager and field superintendent positions. Our retention rate for these key positions was approximately 92% in Canada and the U.S. in 2012.

OUR CAPITAL STRUCTURE

	As at December 31, 2012	As at March 1, 2013
Common shares issued and outstanding	276,475,770	276,502,155
Warrants	15,000,000	15,000,000
Preferred shares	–	–

Common shares

We can issue an unlimited number of common shares.

The board holds an annual meeting of common shareholders to elect the board of directors and appoint the auditors, among other things. It can convene a special meeting of shareholders at any time and for any reason.

Only shareholders of record can attend and vote at shareholder meetings. They can vote in person or by proxy, and their proxyholder does not need to be a shareholder. Each common share entitles the holder to one vote.

Common shareholders also receive dividends. They also have the right to receive our remaining property and assets if Precision is wound up, subject to the prior rights and privileges attached to our other classes of shares.

Market for securities

The table below summarizes the trading activity for our common shares in 2012. Our common shares trade under the symbol *PD* on the Toronto Stock Exchange (TSX) and *PDS* on the New York Stock Exchange (NYSE).

	TSX			NYSE		
	High ($)	Low ($)	Volume (#)	High (US$)	Low (US$)	Volume (#)
January	11.65	9.38	29,392,511	11.45	9.27	38,218,275
February	12.36	10.29	30,000,292	12.39	10.29	38,459,403
March	12.72	9.48	29,662,086	12.89	9.48	36,121,471
April	10.07	8.79	28,706,412	10.12	8.79	35,271,218
May	9.44	7.30	24,856,477	9.58	7.19	29,093,556
June	8.37	5.97	32,282,443	8.19	5.82	51,316,351
July	8.30	6.38	28,241,311	8.28	6.28	31,057,510
August	8.90	7.29	20,832,965	9.01	7.37	42,147,322
September	9.29	7.22	22,418,922	9.60	7.31	40,694,596
October	8.32	7.04	25,204,563	8.51	7.17	40,379,865
November	7.68	6.67	33,391,755	7.71	6.64	38,189,057
December	8.38	7.26	33,051,759	8.50	7.34	33,704,913

Dividends

In December 2012, the board declared an annual dividend of $0.20 per common share, payable quarterly.

The board will review the dividend payment from time to time based on our financial circumstances, market conditions and other factors they consider relevant. Our ability to pay dividends may be restricted if our circumstances change.

Our secured debt facility allows the payment of dividends so long as no default or event of default has occurred. We were in compliance with all debt covenants at the end of 2012.

All dividends on our common shares are “eligible dividends” for Canadian income tax purposes, unless we indicate otherwise.

The following table shows the dividends declared on our common shares in the last three years:

	Annual dividend (per common share)	Record date	Payment date	Dividend paid (per common share)
2012	$0.20	December 20	December 28	$0.05
2011	–	–	–	–
2010	–	–	–	–

Shareholder rights plan

When unitholders approved the plan of arrangement for us to convert to a corporate structure, they also approved the adoption of a shareholder rights plan. A shareholder rights plan agreement was established between Precision and Computershare Trust Company of Canada on June 1, 2010.

The plan is designed to protect the rights of all shareholders and maximize value if there is ever a takeover bid for Precision.

We issued one right for each common share outstanding at the close of business on June 1, 2010, and one right for each additional common share issued after that date, subject to the terms and conditions of the plan.

We will be presenting the shareholder rights plan to shareholders at the 2013 annual and special meeting of shareholders to vote on confirming the continuation and revisions to the plan. See our 2013 management information circular on our website (www.precisiondrilling.com) and filed on SEDAR (www.sedar.com).

Warrants

On April 22, 2009, we issued 15,000,000 purchase warrants under a private placement. Each warrant can be exercised for one common share at a price of $3.22 per common share for five years from the date of issue. No warrants had been exercised as at December 31, 2012.

Preferred shares

We can issue preferred shares in one or more series. The board must pass a resolution determining the number of shares in each series, and the designation, rights, privileges, restrictions and conditions for each series, before the shares can be issued. This includes the rate or amount of dividends, when and where dividends are paid, the dates dividends accrue from any rights or obligations for us to buy or redeem the shares and the price, terms and condition, and any conversion rights.

The number of preferred shares that may be authorized for issue at any time cannot exceed more than half of the number of issued and outstanding common shares.

Material debt

As at December 31, 2012, we had:

- US$850 million (excluding letters of credit of US$27 million) available under the secured facility
- US$650 million outstanding under the 2020 Notes
- $200 million outstanding under the 2019 Notes
- US$400 million outstanding under the 2021 Notes.

The following is a summary of the material terms of the secured facility, the 2020 Notes, the 2019 Notes and the 2021 Notes. Copies of the note indenture governing the 2020 Notes (the *2020 Note Indenture*), the note indenture governing the 2019 Notes (the *2019 Note Indenture*) and the note indenture governing the 2021 Notes (the *2021 Note Indenture*) are available on SEDAR (www.sedar.com) and EDGAR (www.sec.gov).

Secured facility

We entered into the secured facility with a syndicate of lenders and RBC as administrative agent in 2010. The secured facility is currently a US$850 million extendible revolving term credit facility which will be used for general corporate purposes, including for acquisitions, and is secured by liens on substantially all of our present and future assets and the present and future assets of our material U.S. and Canadian subsidiaries (including subsidiaries we have designated *material*, collectively the *material subsidiaries*). The secured facility includes representations and warranties, covenants and events of default that are customary for transactions of this nature, including financial ratio covenants which are tested quarterly.

The table below sets out the key features of the secured facility:

Key features

Amount	¡ provides senior secured financing of up to US$850 million ¡ includes a provision to increase the credit facility limit by up to an additional US$250 million (subject to certain conditions, including obtaining additional lender commitments)
Term	¡ matures on November 17, 2017 ¡ we have the option to request the lenders to extend the facility at their discretion up to five years from the date of request
Letters of credit	¡ provides for letters of credit (including letters of guarantee) in US or Canadian dollars up to a total of US$200 million (as a sublimit of the overall commitments)
Interest rates and fees	¡ we can choose the interest rate on loans denominated in US or Canadian dollars: – either a margin over a US base rate or a margin over LIBOR for US dollar loans – either a margin over the Canadian prime rate or a margin over the Bankers' Acceptance rate for Canadian dollar loans The margins are based on the then applicable ratio of consolidated total debt to EBITDA (margin ratio) ¡ the secured facility also provides for: – a standby fee for each lender calculated on the unused amount of its commitment at a percentage based on the applicable margin ratio – an issue 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) – a fronting fee to be paid to each fronting lender.
Repayment	¡ the secured facility is to be repaid in full on November 17, 2017, subject to the optional extension described above.
Guarantees and security	¡ we and our material subsidiaries have pledged substantially all of our respective present and future assets, secured by a perfected first priority lien, subject to certain permitted encumbrances, as security for our obligations under the secured facility (including obligations to cash management providers, operating lenders and swap providers). All material subsidiaries have also guaranteed our obligations under the secured facility (including those owed to cash management providers, operating lenders and swap providers). ¡ we currently have a corporate credit rating of BB+ from Standard & Poor's Ratings Services (S&P) and Ba1 from Moody's Investors Service, Inc. (Moody's). If we receive a corporate credit rating of at least BBB- from S&P and Baa3 from Moody's, we have the option to require the security to be released (with a corresponding obligation to re-grant security if the rating drops below this threshold after the release).
Certain covenants and events of default	¡ subject to certain exceptions, several covenants of the secured facility restrict our ability and the ability of our material subsidiaries to, among other things, do any of the following: – incur or assume additional debt – dispose of assets – make or pay dividends, share redemptions or other distributions if an event of default has occurred – change their primary business – incur or assume liens on assets – enter into mergers, consolidations or amalgamations, and – enter into speculative swap agreements ¡ the secured facility also includes customary affirmative covenants and events of default ¡ we must also comply with the following financial ratios, each for the most recent four consecutive fiscal quarters: – a maximum consolidated senior debt to EBITDA ratio of 3:1 – a maximum consolidated total debt to EBITDA ratio of 4:1 (the consolidated total debt to EBITDA ratio may increase to 4.5:1 from 4:1 for the first three fiscal quarters following a material acquisition that involves total consideration of more than 5% of our consolidated net tangible assets), and – a minimum interest coverage ratio of 2.75:1.

Operating facilities

In 2012, our $25 million secured operating facility was increased to $40 million and we entered into a new US$25 million secured facility for letters of credit. We also continue to have a US$15 million secured operating facility. At December 31, 2012, we had $40 million and US$15 million available under secured operating facilities, and no amounts had been drawn. Availability of the $40 million facility was reduced by outstanding letters of credit of $19 million. No letters of credit were outstanding at December 31, 2012 under the US$25 million secured facility for letters of credit. The facilities are primarily secured by charges on substantially all of our present and future property and of our material subsidiaries. Advances under the $40 million facility are available at a margin over the banks' prime Canadian lending rate, United States base rate, LIBOR or Banker's Acceptance rate, or in combination and under the US$15 million facility at the bank's prime lending rate. Issuance fees at agreed rates are payable on the amounts of any letters of credit outstanding under the $40 million facility and the US$25 million facility.

Senior unsecured notes

We completed three offerings of senior unsecured notes in private placements to Canadian and U.S. investors from 2010 to 2011. The notes are denominated in either Canadian or US dollars as indicated below, and all payments on the notes are made in that currency. Each offering is detailed in the table below.

	2020 Notes Completed November 17, 2010 Issued under and governed by the 2020 Note Indenture	**2019 Notes** Completed March 15, 2011 Issued under and governed by the 2019 Note Indenture	**2021 Notes** Completed July 29, 2011 Issued under and governed by the 2021 Note Indenture
Principal	US$650 million	$200 million	US$400 million
Interest	¡ 6.625% ¡ paid in cash semi-annually on May 15 and November 15 to holders of record on May 1 and November 1 ¡ calculated on a 360-day year of 12 30-day months	¡ 6.50% ¡ paid in cash semi-annually on March 15 and September 15 to holders of record on March 1 and September 1 ¡ calculated on a 360-day year of 12 30-day months	¡ 6.50% ¡ paid in cash semi-annually on June 15 and December 15 to holders of record on June 1 and December 1 ¡ calculated on a 360-day year of 12 30-day months
Maturity date	¡ November 15, 2020	¡ March 15, 2019	¡ December 15, 2021
Net proceeds	¡ used to repay all of our outstanding debt under our then existing secured credit facility and for general corporate purposes	¡ used in effect to repay the 10% senior unsecured note (see *Three-year history – Canadian senior note offering*)	¡ used to fund our capital expenditure program and for general corporate purposes
Interest payments	¡ began on May 15, 2011 ¡ interest accrues from the most recent date to which interest was paid	¡ began on September 15, 2011 ¡ interest accrues from the most recent date to which interest was paid	¡ began December 15, 2011 ¡ interest accrues from the most recent date to which interest was paid
Redemption features	*Prior to November 15, 2013* ¡ up to 35% of the notes with the net proceeds of certain equity offerings at a redemption price equal to 106.625% of their principal amount, plus accrued interest. *Prior to November 15, 2015* *in whole or in part at 100.0%* of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of each note to be redeemed and any excess of the present value of the November 15, 2015 redemption price plus required interest payments through November 15, 2015 (calculated using a discount equal to the U.S. Treasury rate plus 50 basis points) over the principal amount of the note *Beginning November 15, 2015* ¡ in whole or in part at any time before November 15, 2018, at redemption prices ranging between 103.313% and 101.104% of their principal amount plus accrued interest. *Beginning November 15, 2018* ¡ for their principal amount plus accrued interest	*Prior to March 15, 2014* ¡ up to 35% of the notes with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of their principal amount, plus accrued interest *Prior to March 15, 2015* ¡ in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of each note to be redeemed and any excess of the present value of the March 15, 2015 redemption price plus required interest payments through March 15, 2015 (calculated using a discount rate equal to the Government of Canada rate plus 100 basis points) over the principal amount of the note *Beginning March 15, 2015* ¡ in whole or in part at any time before March 15, 2017, at redemption prices ranging between 103.250% and 101.625% of their principal amount plus accrued interest *Beginning March 15, 2017* ¡ for their principal amount plus accrued interest	*Prior to December 15, 2014* ¡ up to 35% of the notes with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of their principal amount, plus accrued interest *Prior to December 15, 2016* ¡ in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of each note to be redeemed and any excess of the present value of the December 15, 2016 redemption price plus required interest payments through December 15, 2016 (calculated using a discount rate equal to the U.S. Treasury rate plus 50 basis points) over the principal amount of the note *Beginning December 15, 2016* ¡ in whole or in part at any time before December 15, 2019, at redemption prices ranging between 103.250% and 101.083% of their principal amount plus accrued interest *Beginning December 15, 2019* ¡ for their principal amount plus accrued interest
Change of control	¡ each holder of the notes has the right to sell all or a portion of its notes to us for cash equal to 101% of the principal amount, plus accrued interest to the date of purchase	¡ each holder of the notes has the right to sell all or a portion of its notes to us for cash equal to 101% of the principal amount, plus accrued interest to the date of purchase	¡ each holder of the notes has the right to sell all or a portion of its notes to us for cash equal to 101% of the principal amount, plus accrued interest to the date of purchase

Subject to certain exceptions, the three note indentures limit our ability and the ability of some of our subsidiaries to, among other things, do any of the following:

- incur additional indebtedness and issue preferred shares
- create liens
- make restricted payments
- create or permit to exist restrictions on the ability of Precision or certain of its 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.

Each of the 2020 Notes, 2019 Notes and 2021 Notes are general unsecured obligations and rank senior in right of payment to all of our future obligations that are subordinate in right of payment to these notes and equal in right of payment with all of our other existing and future obligations.

Credit ratings

Credit ratings affect our financing costs, liquidity and operations over the long term and are intended as an independent measure of the credit quality of long-term debt. Credit ratings affect our ability to obtain short and long-term financing and the cost of this financing, and our ability to engage in certain business activities cost-effectively.

If a rating agency reduces its current rating on our debt, or downgrades us, or we experience a negative change in our ratings outlook, it could have an adverse effect on our financing costs and access to liquidity and capital.

The table below shows our current credit ratings by Moody's and S&P:

	Moody's	S&P
Corporate credit rating	Ba1	BB+
Senior secured bank credit facility rating	Not rated	Not rated
Senior unsecured credit rating (2020 Notes, 2019 Notes and 2021 Notes)	Ba1	BB

Understanding credit ratings

Moody's Moody's credit rating is their opinion of our ability to honour senior unsecured financial obligations and contracts	- rating scale from *Aaa* (highest) to *C* (lowest quality of securities rated) - Moody's rating of *Ba* is the fifth highest of nine categories and denotes obligations judged to have speculative elements and are subject to substantial credit risk - 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, 2 indicates a mid-range ranking and 3 indicates a ranking in the lower end of the generic rating category
S&P S&P's credit rating is a forward-looking opinion about our overall financial capacity (or creditworthiness) to pay our financial obligations	- rating scale 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 10 categories - under the S&P rating system, an obligor with debt securities rated BB is less vulnerable in the near-term than other lower-rated obligors, and 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

Credit ratings assigned by the rating agencies are not recommendations to buy, hold or sell the debt, and the ratings are not a comment on market price or suitability for a particular investor. There is no assurance that a rating will remain in effect for a given period or that any rating will not be revised or withdrawn entirely by a rating agency in the future if it believes circumstances warrant it. Credit ratings by different agencies are independent of one another and should be evaluated separately.

RISKS IN OUR BUSINESS

Investing in Precision shares has risk. Take some time to read about the risks described below and other important information in this AIF or our other disclosure documents before making an investment decision. You may also want to receive advice from an expert.

Our operations depend on the price of oil and natural gas

We sell our services to oil and natural gas exploration and production companies. Macroeconomic and geopolitical factors associated with oil and natural gas supply and demand are the primary factors driving pricing and profitability in the oilfield services industry. Generally, we experience high demand for our services when commodity prices are relatively high and the opposite is true when commodity prices are low. The volatility of crude oil and natural gas prices accounts for much of the cyclical nature of the energy services business.

The markets for oil and natural gas are separate and distinct. Oil is a global commodity with a vast distribution network, although the differential between benchmarks such as West Texas Intermediate and European Brent crude oil can fluctuate. As in all markets, when supply, demand and other market factors change, so can the spreads between benchmarks. The most economical way to transport natural gas is in its gaseous state by pipeline, and the natural gas market depends on pipeline infrastructure and regional supply and demand. 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.

Worldwide military, political and economic events, including, for example, sovereign debt concerns in Europe, lower expectations for global economic growth or initiatives by the Organization of the Petroleum Exporting Countries and other major petroleum exporting countries can affect the demand for, and the supply of, oil and natural gas. Weather conditions, governmental regulation (in Canada and elsewhere), levels of consumer demand, the availability of pipeline capacity, U.S. and Canadian natural gas storage levels and other factors beyond our control can also affect the supply of and demand for oil and natural gas and 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 our services and could have a material adverse effect on our revenues, cash flows and profitability.

Lower oil and natural gas prices could also cause our customers to terminate, renegotiate or fail to honour our drilling contracts, which could affect the anticipated revenues that support our capital expenditure program and deliveries of new build rigs. In addition, lower oil and natural gas prices, demand in oilfield services and rig utilization could affect the fair market value of our rig fleet, which in turn could trigger a write down for accounting purposes. There is no assurance that demands for our services or conditions in the oil and natural gas and oilfield services sector will not decline in the future.

We have accounts receivable with customers in the oil and natural gas industry and their revenues may be affected by fluctuations in commodity prices. Our ability to collect receivables may be adversely affected by any prolonged weakness in oil and natural gas prices.

Intense price competition and the 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. We compete for drilling contracts that are usually awarded based on competitive bids. We believe pricing and rig availability are the primary factors potential customers consider when selecting a drilling contractor. We believe other factors are also important, like 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 that is adaptable to and having personnel familiar with new technologies and drilling techniques, and rig mobility and efficiency.

Historically contract drilling has been cyclical with 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 and often result in rigs being idle. There are numerous contract drilling companies in each market we compete in, and an oversupply of drilling rigs can cause greater price competition. Contract drilling companies compete primarily on a regional basis, and the intensity of competition can vary significantly from region to region at any particular time. If

demand for drilling services is better in a region where we operate, our competitors might respond by moving in suitable drilling rigs from other regions, reactivating previously stacked rigs or purchasing new drilling rigs. An influx of drilling rigs into a market from any source could rapidly intensify competition and make any improvement in the demand for our drilling rigs short-lived, which could in turn have a material adverse effect on our revenues, cash flows and earnings.

Our business results and the strength of our financial position are affected by our ability to strategically manage our capital expenditure program in a manner consistent with industry cycles and fluctuations in the demand for contract drilling services. If we do not effectively manage our capital expenditures or respond to market signals relating to the supply or demand for contract drilling and oilfield services, it could have a material adverse effect on our revenues, operations and financial condition.

Risks and uncertainties associated with our international operations can negatively affect our business

We conduct some of our business outside of Canada and the U.S., like Mexico and the Kingdom of Saudi Arabia. Our growth plans contemplate establishing operations in other foreign countries, including countries where the political and economic systems may be less stable than in Canada or the U.S.

Our international operations are subject to risks normally associated with conducting business in foreign countries, including among others:

- an uncertain political and economic environment
- the loss of revenue, property and equipment as a result of expropriation, confiscation, nationalization, contract deprivation and force majeure
- war, terrorist acts or threats, civil insurrection and geopolitical and other political risks
- fluctuations in foreign currency and exchange controls
- increases in duties, taxes and governmental royalties
- renegotiation of contracts with governmental entities
- changes in laws and policies governing operations of foreign-based companies.

If there is a dispute with our international operations, we may be subject to the exclusive jurisdiction of foreign courts or may not be able to subject foreign persons to the jurisdiction of a court in Canada or the U.S.

Government-owned petroleum companies located in some of the countries where we operate now or in the future may have policies, or may be subject to governmental policies, that give preference to the purchase of goods and services from companies that are majority-owned by local nationals. We may therefore rely on joint ventures, license arrangements and other business combinations with local nationals in these countries, which may expose us to certain counterparty risks, including the failure of local nationals to meet contractual obligations or comply with local or international laws that apply to us.

In the international markets where we operate, we are subject to various laws and regulations that govern the operation and taxation of our businesses and the import and export of our equipment from country to country. We may be uncertain about how these laws and regulations are imposed, applied or interpreted, and they could be subject to change. Since we derive a portion of our revenues from subsidiaries outside of Canada, the subsidiaries paying dividends or making other cash payments or advances may be restricted from transferring funds in or out of the respective countries, or face exchange controls or taxes on any payments or advances. We have organized our foreign operations partly based on certain assumptions about various tax laws (including capital gains and withholding taxes), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. We believe these assumptions are reasonable, however, there is no assurance that foreign taxing or other authorities will reach the same conclusion. If these foreign jurisdictions change or modify the laws, we could suffer adverse tax and financial consequences.

While we have developed policies and procedures designed to achieve compliance with applicable international laws, we could be exposed to potential claims, economic sanctions or other restrictions for alleged or actual violations of international laws related to our international operations, including anti-corruption legislation, trade laws and trade sanctions. The Canadian government, the U.S. Department of Justice, the U.S. Securities and Exchange Commission (SEC), the U.S. Office of Foreign Assets Control and other agencies and authorities have a broad range of civil and criminal penalties they

may seek to impose against corporations and individuals for such violations, including injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs, among other things. While we cannot accurately predict the impact of any of these factors, if any of those risks materialize, it could have a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

Any difficulty in retaining, replacing or adding personnel could adversely affect our business

We may not be able to find enough skilled labor to meet our needs, and this could limit growth. We may also have difficulty finding enough skilled and unskilled labor in the future if demand for our services increases. Shortages of qualified personnel have occurred in the past during periods of high demand. The demand for qualified rig personnel generally increases with stronger demand for land drilling services and as new and refurbished rigs are brought into service. Increased demand typically leads to higher wages that may or may not be reflected in any increases in service rates.

Other factors can also affect our ability to find enough workers to meet our needs. Our work requires skilled workers who can perform physically demanding work. Volatility in oil and natural gas activity and the demanding nature of the work, however, may prompt workers to pursue other kinds of jobs that offer a more desirable work environment and wages competitive to ours. Our success depends on our ability to continue to employ and retain skilled technical personnel and qualified rig personnel. If we are unable to, it could have a material adverse effect on our operations.

Our ability to provide reliable services depends on the availability of well-trained, experienced crews to operate our field equipment. We must also balance our need to maintain a skilled workforce with cost structures that fluctuate with activity levels. We retain the most experienced employees during periods of low utilization by having them fill lower level positions on field crews. Many of our businesses experience manpower shortages in peak operating periods, and we may experience more severe shortages as the industry adds more rigs, oilfield service companies expand and new companies enter the business.

New capital expenditures in the contract drilling industry expose us to the risk of oversupply of equipment

Periods of high demand often lead to higher capital expenditures on drilling rigs and other oilfield services equipment. The number of drilling rigs competing for work in markets where we operate has increased as the industry adds new and upgraded rigs. We expect more new or newer rigs to enter markets where we operate. The industry supply of drilling rigs may exceed actual demand because of the relatively long life span of oilfield services equipment and the waiting period between when a decision is made to upgrade or build new equipment and when the equipment is placed into service. Excess supply resulting from industry-wide capital expenditures could lead to lower demand for term drilling contracts and our equipment and services. The additional supply of drilling rigs has intensified price competition in the past and could continue to do so and possibly lead to lower rates in the oilfield services industry generally and lower utilization of existing rigs. If any of these factors materializes, it would have an adverse effect on our revenues, cash flows, earnings and asset valuation.

Laws, regulations and guidelines

Our operations are affected by numerous laws, regulations and guidelines relating to the protection of the environment and health and safety, including those governing the management, transportation and disposal of hazardous substances and other waste materials. These include laws, regulations and guidelines 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 these apply to our operations and authorize the recovery of natural resource damages by the government, injunctive relief, and the imposition of stop, control, remediation and abandonment orders. In addition, our land drilling operations may be conducted in or near ecologically sensitive areas, such as wetlands, which are subject to special protective measures and may expose us to additional operating costs and liabilities for noncompliance with certain laws. Some environmental laws and regulations may impose strict and, in certain cases joint and several, liability. This means that in some situations we could be exposed to liability as a result of conduct that was lawful at the time it occurred, or conditions caused by prior operators or other third parties, including any liability related to offsite treatment or disposal facility. The costs arising from compliance with these laws, regulations and guidelines may be material.

Our business is affected by governmental regulations and policies

Some of our activities are affected by factors that are beyond our control or influence. Our operations are directly affected by fluctuations in exploration, development and production activity by our customers that are dictated by numerous factors, including economic conditions, global energy prices and government policies. If there are additional government regulations or incentives, or any of them are eliminated or curtailed, it could have a significant impact on the oil and natural gas business in Canada, the U.S. and other markets where we operate or choose to operate in the future. These factors could lead to lower demand for our services, resulting in a material adverse effect on our revenues, cash flows and earnings.

Business acquisitions entail numerous risks and may disrupt our business or distract management from operating our business

We consider and evaluate acquisitions of, or significant investments in, complementary businesses and assets as part of our business strategy. Any acquisition could have a material adverse effect on our operating results, financial condition and/or the price of our 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 to comply with public reporting requirements, potential loss of key employees and customers of the acquired companies, and an increase in our expenses and working capital requirements.

We may incur substantial debt to finance future acquisitions and also may issue equity securities or convertible securities for acquisitions. Debt service requirements could be a burden on our results of operations and financial condition. We will also be required to meet certain conditions if we want to borrow money to fund future acquisitions. Acquisitions could also divert the attention of management and other employees from our day-to-day operations and the development of new business opportunities. Even if we are successful in integrating future acquisitions into our operations, we may not derive benefits like operational or administrative synergies that we expect from acquisitions, which may result in us committing capital resources and not receiving the expected returns. In addition, we may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets.

Depending on third-party suppliers has risks

We source certain key rig components, raw materials, equipment and component parts from a variety of suppliers in Canada, the U.S. and overseas. We also outsource some or all construction services for drilling and service rigs, including new build rigs as part of our capital expenditure program (see *Three-year history*). We maintain relationships with key suppliers and contractors and an inventory of key components, materials, equipment and parts. We also place advance orders for components that have long lead times. We may, however, experience cost increases, delays in delivery due to the strong activity or financial hardship of suppliers or contractors, or other unforeseen circumstances relating to third parties. If our current or alternate suppliers are unable to deliver the necessary components, materials, equipment, parts and services we require for our businesses, including the construction of new build drilling rigs, it can delay service to our customers and have a material adverse effect on our revenues, cash flows and earnings.

Poor safety performance could lead to lower demand for our services

Standards for accident prevention 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. Safety is a key factor that customers consider when selecting an oilfield service company. A decline in our safety performance could result in lower demand for services, and this could have a material adverse effect on our revenues, cash flows and earnings.

We are subject to various environmental, health and safety laws, rules, legislation and guidelines which can impose material liability, increase our costs or lead to lower demand for our services.

Energy and the environment

The issue of energy and the environment has created intense public debate in Canada and around the world in recent years, and it is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment. Any regulatory changes that impose additional environmental restrictions or requirements on us, or our customers, could increase our operating costs and potentially lead to lower demand for our services and have an adverse effect on us. For example, there is growing concern about the apparent connection between the burning of fossil fuels and climate change. Laws, regulations or treaties concerning climate change or greenhouse gas emissions can have an adverse impact on the demand for oil and natural gas, which could have a material adverse effect on us. Governments in Canada and the U.S. are also reviewing more stringent regulation or restriction of hydraulic fracturing, a technology used by some of our customers that involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production. This could have a negative impact on the exploration of unconventional energy resources, which are only commercially viable with the use of hydraulic fracturing. Laws relating to hydraulic fracturing are in various stages of development at levels of governments in markets where we operate. There is no assurance of the outcome of these developments, their effect on the regulatory landscape and the contract drilling industry, or that additional governmental organizations will not seek to pass legislation on hydraulic fracturing in the future.

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

New technology could reduce demand for certain rigs or put us at a competitive disadvantage

Complex drilling programs for the exploration and development of conventional and unconventional oil and natural gas reserves demand high performance drilling rigs. The ability of drilling rig service providers to meet this demand depends on continuous improvement of existing rig technology like drive systems, control systems, automation, mud systems and top drives to improve drilling efficiency. Our ability to deliver equipment and services that meet customer demand is critical to our continued success. We cannot assure that our rig technology will continue to meet demands, especially as rigs age and technology advances, or that our competitors will not develop technological improvements that are more advantageous, timely or cost effective than our own advancements.

Our operations face risks of interruption and casualty losses

Our operations face many hazards inherent in the drilling and well servicing industries, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, reservoir damage, loss of directional control, 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 that we drill through.

Generally, drilling and service rig contracts separate the responsibilities of a drilling or service rig company and the customer, and we try to obtain indemnification from our customers by contract for some of these risks even though we also have insurance coverage to protect us. We cannot assure, however, that any insurance or indemnification agreements will adequately protect us against liability from all of the consequences described above. If there is an event that is not fully insured or indemnified against, or a customer or insurer does not meet its indemnification or insurance obligations, it could result in substantial losses. In addition, we may not be able to get insurance to cover any or all of these risks, or the coverage may not be adequate. Insurance premiums or other costs may rise significantly in the future, and make the insurance prohibitively expensive or uneconomic. Significant events like terrorist attacks in the U.S., severe hurricane damage and well blowout damage in the U.S. Gulf Coast region have resulted in significantly higher insurance costs, deductibles and coverage restrictions. When we renew our insurance, we may decide to self-insure at higher levels, and assume increased risk, in order to reduce costs associated with higher insurance premiums.

Business in our industry is seasonal and highly variable

Seasonal weather patterns in Canada and the northern part of the U.S. affect activity in the oilfield services industry. During the spring months, wet weather and the spring thaw make the ground unstable so municipalities and counties and provincial and state transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment. This reduces activity and highlights the importance of the location of our equipment prior to the imposition of the road bans. The timing and length of road bans depend on weather conditions leading to the spring thaw and during the thawing period. Additionally, certain oil and natural gas producing areas are located in parts of Western Canada that are only accessible during the winter months because the ground surrounding or containing the drilling sites in these areas consists of terrain known as muskeg. The rigs and other necessary equipment cannot cross the terrain to reach the drilling site until the muskeg freezes. Moreover, once the rigs and other equipment have been moved to a drilling site, they may become stranded or are unable to be relocated to another site if the muskeg thaws unexpectedly. Our business results depend partly on how long and severe the winter season lasts.

There are risks associated with increased capital expenditures

The timing and amount of capital expenditures we incur will directly affect the amount of cash available to us. The cost of equipment generally escalates as a result of high input costs during periods of high demand for our drilling rigs and oilfield services equipment and other factors. There is no assurance that we will be able to recover higher capital costs through rate increases to our customers.

Dividends may be variable

The actual cash flow available for the payment of dividends to shareholders is a function of numerous factors including but not limited to our financial performance, debt covenants and obligations, working capital requirements, future upgrade capital expenditures and future expansion capital expenditure requirements for the purchase of property, plant and equipment, tax obligations, the impact of interest rates and/or foreign exchange rates, the growth of the general economy, the price of crude oil and natural gas, weather, and number of common shares outstanding.

Dividends may be increased, reduced or eliminated entirely depending on our operations and the performance of our assets. We require sufficient cash flows to service and repay our debt. The market value of our common shares may deteriorate if we are unable to meet dividend expectations in the future, and that deterioration may be material. See *Three-year history, Our corporate structure – Dividends* and *Risks in our business*.

We require sufficient cash flows to service and repay our debt

We will need sufficient cash flows in the future to service and repay our debt. Our ability to generate cash in the future is affected to some extent by general economic, financial, competitive and other factors that may be beyond our control. If we need to borrow funds in the future to service our debt, our ability will depend on covenants in the secured facility, 2020 Note Indenture, 2019 Note Indenture, 2021 Note Indenture and other debt agreements we have in the future. We may not be able to access sufficient amounts under the secured facility or from the capital markets in the future to pay our obligations as they mature or to fund other liquidity requirements. If we are not able to borrow a sufficient amount, or generate enough cash flow from operations to service and repay our debt, we will need to refinance our debt or we will be in default, and we could be forced to reduce or delay investments and capital expenditures or dispose of material assets. We may not be able to refinance or arrange alternative measures on favorable terms or at all. If we are unable to service, repay and/or refinance our debt, it could have a negative impact on our financial condition and results of operations.

A substantial portion of our operations is carried out through subsidiaries, and some of them are not guarantors of our debt. The assets and operations of the non-guarantor subsidiaries are not material, and these subsidiaries do not have any obligation to pay amounts due on the debt or to make funds available for that purpose.

Repaying the debt depends on our guarantor subsidiaries generating cash flow and making it available to us by dividend, debt repayment or otherwise. Our guarantor subsidiaries may not be able to, or may not be permitted to, make distributions to allow us to make payments on our debt. Each guarantor subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from the subsidiaries. While the agreements governing certain existing debt limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions.

If we do not receive dividends from our guarantor subsidiaries, we may be unable to make the required principal and interest payments, which could have a material adverse effect on our financial position and results of operations.

The secured facility, 2020 Note Indenture, 2019 Note Indenture and 2021 Note Indenture contain restrictive covenants

The secured facility, 2020 Note Indenture, 2019 Note Indenture and 2021 Note Indenture contain a number of covenants that, among other things, restrict us and some of our subsidiaries from conducting certain activities. In addition, we must satisfy and maintain certain financial ratio tests under the secured facility (see *Our capital structure – Material debt* for more information). Events beyond our control could affect our ability to meet these tests. If we breach of any of the covenants, it could result in a default under the secured facility or any of the note indentures.

If there is a default, the applicable lenders or note holders could decide to declare all amounts outstanding under the secured facility, 2020 Note Indenture, 2019 Note Indenture or 2021 Note Indenture, as the case may be, to be due and payable immediately, and terminate any commitments to extend further credit.

Risks associated with turnkey drilling operations could adversely affect our business

We earn some of our revenue from turnkey drilling contracts. We expect that turnkey drilling will continue to be part of our service offering, however, they pose substantially more risk than wells drilled on a daywork basis. Under a typical turnkey drilling contract, we agree to drill a well for a customer to a specified depth and under specified conditions for a fixed price. We typically provide technical expertise and engineering services, as well as most of the equipment required for the drilling of turnkey wells, and use subcontractors for related services. We typically do not receive progress payments and are entitled to payment by the customer only after we have met the full terms of the drilling contract. We sometimes encounter difficulties on wells and incur unanticipated costs, and not all of the costs are covered by insurance. As a result, under turnkey contracts we assume most of the risks associated with drilling operations that are generally assumed by customers under a daywork contract. Operating cost overruns or operational difficulties on turnkey jobs could have a material adverse effect on our financial position and results of operations.

A successful challenge by the tax authorities of expense deductions could negatively affect the value of our common shares

There is no assurance that the taxation authorities will agree with the classification of expenses we or our subsidiaries have claimed or not challenge the amount of interest expense deducted. If the taxation authorities are successful with either challenge, it could have an adverse effect on our return to shareholders.

We have retained liabilities from prior reorganizations

We have retained all liabilities of our predecessor companies, including liabilities relating to corporate and income tax matters.

Losing key management could reduce our competitiveness and prospects for future success

Our future success and growth depends partly on the expertise and experience of our key management. There is no assurance that we will be able to retain key management. Losing these individuals could have a material adverse effect on our operations and financial condition.

Our assessment of goodwill and/or capital assets for impairment may result in a non-cash charge against our consolidated net income

We are required to assess our goodwill balance for impairment at least annually, and our capital assets balance for impairment when certain internal and external factors indicate the need for further analysis.

We calculate impairment based on management's estimates and assumptions. We may consider several factors including any declines in our share price and market capitalization, lower future cash flow and earnings estimates, significantly reduced or depressed markets in the our industry and general economic conditions, among other things.

Any impairment write down to goodwill or capital assets would result in a non-cash charge against net earnings, and it could be material.

Our operations are subject to foreign exchange risk, which could cause results to fluctuate significantly from period to period

Our U.S. and international operations have revenue, expenses, assets and liabilities denominated in currencies other than the Canadian dollar, mostly in US dollars and currencies which are pegged to the US dollar. Our income statement, balance sheet and statement of cash flow are therefore affected by changes in currency exchange rates.

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

- *Transaction exposure*
  We have long-term debt denominated in US dollars. We have designated our US dollar denominated unsecured senior notes as a hedge against the net asset position of our U.S. 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 against the US dollar, we will incur a foreign exchange gain from the translation of this debt. The vast majority of our international operations are transacted in US dollars or US dollar-pegged currencies. Transactions for our Canadian operations are primarily transacted in Canadian dollars, however, we occasionally purchase goods and supplies in US dollars for our Canadian operations. These types of transactions and foreign exchange exposure would not typically have a material impact on our financial results.

We may be unable to access additional financing

We may need to obtain additional debt or equity financing in the future to support ongoing operations, undertake capital expenditures, repay existing or future debt (including the secured facility, 2020 Notes, 2019 Notes and 2021 Notes) or to pursue acquisitions or other business combination transactions. Continued or future volatility or uncertainty in the credit markets may increase costs associated with issuing debt and there is no assurance that we will be able to access additional financing when we need it, or on terms we find acceptable or favorable. If we are unable to raise financing to support ongoing operations or to fund capital expenditures, acquisitions, debt repayments or other business combination transactions, it could limit growth and may have a material adverse effect on our revenues, cash flows and profitability.

Conditions in the credit markets in the future may adversely affect business

The ability to make scheduled debt repayments, refinance debt obligations or access financing depends on our financial condition and operating performance, which may be affected by prevailing economic and competitive conditions and certain financial, business and other factors beyond our control. Volatility in the credit markets can increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect our ability to access those markets or the ability of third parties we wish to do business with. We may be unable to maintain sufficient cash flow from operating activities to allow us to pay the principal, premium, if any, and interest on our debt.

In addition, if there is continued or future volatility or uncertainty in the capital markets, access to financing may be uncertain, and this can have an adverse effect on the industry and our business, including future operating results. Our customers may curtail their drilling programs, which could result in lower demand for drilling rigs, well service rigs, reduced dayrates and a decrease in demand for directional drilling and turnkey jobs, other wellsite services or equipment utilization. In addition, certain customers may be unable to pay suppliers, including us, if they are unable to access the capital markets to fund their business operations.

Selling additional common shares could affect their value

We may issue additional common shares in the future to fund our needs or those of other entities owned directly or indirectly by us, as authorized by the board. We do not need shareholder approval to issue additional common shares, and shareholders do not have any pre-emptive rights related to share issues.

See *Our capital structure* for more information.

The price of our common shares can fluctuate

The price of our common shares can fluctuate and several factors can cause volatility, like increases or decreases in revenue or earnings, changes in revenue or earnings estimates by the investment community and speculation in media or investment community about our financial condition or results of operations. General market conditions and Canadian, U.S. or international economic factors and political events unrelated to our performance may also affect the price of our common shares. Investors should therefore not rely on past performance of our trust units or common shares to predict the future performance of our common shares or financial results.

Variability in asset valuation could negatively affect the value of our common shares

The net asset value of our assets will vary from time to time depending on factors beyond our control. The trading price of our common shares also fluctuates due to factors beyond our control and the price may be higher or lower than the net asset value of our assets.

We expect to maintain our status as a foreign private issuer in the U.S., which exempts us from a number of rules under the United States Securities Exchange Act of 1934, as amended (the Exchange Act) and allows us to file less information with the SEC than a company incorporated in the U.S.

As a *foreign private issuer*, we are 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. Our directors, officers and principal shareholders are also exempt from the reporting and *short-swing* profit recovery provisions of Section 16 of the Exchange Act. We are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act, nor are we generally required to comply with Regulation FD, which restricts the selective disclosure of material non-public information. As a result, there may be less publicly available information about us than U.S. public companies and this information may not be provided as promptly. In addition, we are permitted, under a multi-jurisdictional disclosure system adopted by the U.S. and Canada, to prepare our disclosure documents in accordance with Canadian disclosure requirements, including preparing our financial statements in accordance with IFRS, which differs in some respects from U.S. GAAP.

We may become a passive foreign investment company (PFIC), which could result in adverse U.S. tax consequences to U.S. investors

Management does not believe that we are, or will be treated as, a PFIC for U.S. tax purposes. Since PFIC status is determined on an annual basis and will depend on the composition of our income and assets from time to time, it is possible that we could be considered a PFIC in the future. This could result in adverse U.S. tax consequences to a U.S. investor. In particular, a U.S. investor would be subject to U.S. federal income tax at ordinary income rates, plus a possible interest charge, for any gain derived from a disposition of common shares, as well as certain distributions by us. In addition, a step-up in the tax basis of our common shares would not be available if an individual holder dies.

An investor who acquires 10% or more of our common shares may be subject to taxation under the controlled foreign corporation (CFC) rules.

Under certain circumstances, a U.S. person who directly or indirectly owns 10% or more of the voting power of a foreign corporation that is a CFC (generally, a foreign corporation where 10% of the U.S. shareholders own more than 50% of the voting power or value of the stock of the foreign corporation) for 30 straight 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 U.S. federal income tax purposes its pro rata share of certain income of the CFC even if the share is not distributed to the person. We are currently a CFC, but this could change in the future.

MATERIAL INTERESTS, EXPERTS AND MATERIAL CONTRACTS

Material interests

None of our directors or executive officers, or any shareholder who beneficially owns, or controls or directs, directly or indirectly, more than 10% of our outstanding common shares, or any of their known associates or affiliates, have a direct or indirect material interest in any transaction affecting us in the three most recently completed financial years or during 2013 to the date of this AIF, or in any proposed transaction that has had or is reasonably expected to have a material effect on Precision.

Interests of experts

KPMG LLP, Chartered Accountants (KPMG) is our external auditor and has prepared an opinion on our consolidated financial statements as at and for the year ended December 31, 2012.

KPMG has confirmed that with respect to their 2012 audit, they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and the meaning of the U.S. Securities Act of 1933 and the rules and regulations adopted by the SEC and the Public Company Accounting Oversight Board in the U.S.

Material contracts

Except for contracts we entered as part of the ordinary course of business, we had four material contracts at the end of 2012. We entered these contracts prior to 2012 and they are still in effect:

- Secured facility credit agreement
- 2020 Note Indenture
- 2019 Note Indenture
- 2021 Note Indenture.

See *Our capital structure – Material debt* for more information. We filed copies of these contracts, other than the secured facility credit agreement, on SEDAR (www.sedar.com) and on EDGAR (www.sec.gov).

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

We are not a party to, and our properties are not the subject of, any material legal proceedings. We are also not aware of any potential material legal proceedings. We have not entered into any settlement agreements or been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority; or by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

GOVERNANCE

Board of directors

Our by-laws provide that the board of directors has full, absolute and exclusive power, control, authority and discretion to manage Precision's business and affairs, subject to the rights of our shareholders.

Directors are elected at each annual meeting of shareholders for a one-year term.

The table below provides information about each director, including his name, place of residence, positions and offices he has held since he was first elected to our board, and his principal occupation during the previous five years:

William T. Donovan North Palm Beach, Florida, United States Citizenship: USA Director since 2008 Member: Audit Committee Corporate Governance, Nominating and Risk Committee (chair since May 2012)	¡ Currently 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 ¡ Also a director for several private companies in the U.S., the United Kingdom and Russia ¡ Director of Grey Wolf, Inc. from June 1997 to December 2008, prior to its acquisition by Precision Drilling Trust and his subsequent appointment as director of Precision in December 2008 ¡ President, Chief Executive Officer and a director of Total Logistics, Inc., a Wisconsin corporation engaged in various operating and investment activities, from 1997 to 2005 ¡ Previously President, Chief Financial Officer, and a director of Christiana Companies, Inc. and Prideco Inc. prior to their merger with Weatherford International, Inc. in February 1999 ¡ Principal and Managing Director of Lubar & Co., a private investment and venture capital firm, from 1980 to 1998 ¡ Officer with Manufacturers Hanover Trust Company from 1976 until 1980, where he specialized in merger and acquisition financing, prior to joining Lubar & Co. ¡ Received his B.Sc. and MBA from the University of Notre Dame
Brian J. Gibson, ICD.D Mississauga, Ontario, Canada Citizenship: Canada Director since May 2011 Member: Audit Committee Corporate Governance, Nominating and Risk Committee	¡ Currently a private investor and corporate director ¡ Senior Vice President, Equities of AIMCo. from December 2008 to May 2012 ¡ President of Panoply Capital Asset Management Inc., a private investment firm from January 2008 to December 2008 ¡ Senior Vice President, Public Equities for the Ontario Teachers' Pension Plan from August 1992 to January 2008 ¡ During his 32-year career, has been responsible for the management of various large equity investment portfolios, including those of insurance companies, a chartered bank, pension and mutual funds, and endowments, and has particular expertise in "relationship" investing and in corporate finance ¡ Serves on the board of Kruger Inc., and is a former director of MacDonald, Dettwiler and Associates Ltd., Westaim Corporation and Viterra Inc. ¡ Received his B. Comm from Laurentian University and MBA from the University of Toronto and is a Chartered Financial Analyst ¡ Graduate of the Directors' Education Program sponsored by the Institute of Corporate Directors
Robert J.S. Gibson, ICD.D Calgary, Alberta, Canada Citizenship: Canada Director since June 1996 Member: Audit Committee Corporate Governance, Nominating and Risk Committee	¡ President of Stuart & Company Limited, a private investment firm, since 1973 and is also Managing Director of Alsten Holdings Ltd. ¡ Serves on the board of Cash Store Financial Services Inc. and as director for a number of private companies ¡ Chairman and a director for the Canadian Defence and Foreign Affairs Institute ¡ Graduate of the Directors' Education Program sponsored by the Institute of Corporate Directors

Allen R. Hagerman, FCA, ICD.D Calgary, Alberta, Canada Citizenship: Canada Director since December 2006 Member: Audit Committee (chair since May 2012) Human Resources and Compensation Committee	¡ Executive Vice President of Canadian Oil Sands Limited, an oil sands mining and upgrading entity, where he is currently responsible for overseeing crude oil marketing operations ¡ Chief Financial Officer of Canadian Oil Sands Limited from June 2003 to April 2007 ¡ Director of the Calgary Exhibition and Stampede, a private entity ¡ Member of the Financial Executives Institute and past President of Financial Executives Institute, Calgary Chapter ¡ Previous board positions include the Lead Director of Capital Power Income LP, and a director of Mongolia Minerals Corporation, Syncrude Canada Ltd., and the University of Calgary ¡ Past Chair of the Alberta Children's Hospital Foundation ¡ Fellow of the Institute of Chartered Accountants of Alberta and received their Distinguished Service Award ¡ Received his B. Comm. from the University of Alberta and his MBA from Harvard Business School ¡ Graduate of the Directors' Education Program sponsored by the Institute of Corporate Directors
Stephen J.J. Letwin Toronto, Ontario, Canada Citizenship: Canada Director since December 2006 Member: Human Resources and Compensation Committee	¡ Currently President and CEO and a director of IAMGOLD Corporation, a leading mid-tier gold mining company, producing approximately one million ounces annually, from five gold mines on three continents ¡ Senior executive with Enbridge Inc. from 1999 to 2010, including Executive Vice President of Gas Transportation & International with responsibility for natural gas operations, a gas distribution company and its international business unit ¡ Served as President & Chief Operating Officer of TransCanada Energy and was Chief Financial Officer of TransCanada Pipelines Limited, Numac (Westcoast Energy), and Encor Energy before joining Enbridge ¡ Served as a director of Carmen Energy Inc. and Gas Metropolitan LP ¡ Currently serves on the board of a private corporation ¡ Committed to voluntary leadership throughout his career. Serves as Patron for UNICEF Alberta, was a former director of YMCA Calgary, served on the Board of Governors at McMaster University, and is an Honorary Director of WestPark Hospital in Toronto and an Honorary Colonel for the 14th Service Battalion in Calgary ¡ Awarded the 2006 Alberta Centennial Medal for his commitment to the community ¡ Received his B.Sc. (Honors) from MacMaster University and MBA from the University of Windsor, and is a Certified General Accountant ¡ Attended the Advanced Management Program at Harvard Business School
Dr. Kevin O. Meyers Houston, Texas, United States Citizenship: USA Director since September 2011 Member: Corporate Governance, Nominating and Risk Committee Human Resources and Compensation Committee (chair since May 2012) Also attends a management committee known as the Safety Council	¡ Has over 30 years of experience in the energy industry, having retired from ConocoPhillips at the end of 2010 ¡ Senior executive with ConocoPhillips, for the 10 years prior to his retirement, most recently as Senior Vice President Exploration and Production, Americas ¡ Previously President of ConocoPhillips Canada, President of ConocoPhillips Russia and Caspian and President of ConocoPhillips Alaska ¡ While in Russia from 2004 to 2006, served on the board of LUKOIL and was the lead resident executive for the COP/LUKOIL strategic alliance ¡ Served in engineering, technical and executive positions with ARCO, last serving as President of ARCO Alaska prior to joining ConocoPhillips in 2002 ¡ Pennsylvania native, has served on several boards, including the Board of Regents for the University of Alaska and the Nature Conservancy of Alaska ¡ Currently serves on the boards of Hornbeck Offshore Services, Denbury Natural Resources, Bill Barrett Corporation, the World Energy Council, the Houston Symphony and the U.S. Energy Association ¡ Received his B.A. in chemistry and mathematics from Capital University and Ph.D. in chemical engineering from the Massachusetts Institute of Technology
Patrick M. Murray Dallas, Texas, United States Citizenship: USA Director since July 2002 Member: Audit Committee Human Resources and Compensation Committee	¡ Retired in May 2007 as Chairman of the Board and CEO of Dresser, Inc., a leading manufacturer and marketer of highly engineered equipment for the energy industry ¡ Previously served as President and CEO of Dresser Inc. ¡ President of Halliburton Company's Dresser Equipment Group from 1998 to 2000 and Senior Vice President, Strategic Initiatives of Dresser Industries, Inc. in 1997 ¡ Was also President and then Chairman of Sperry-Sun Drilling Services, and Controller at NL Industries ¡ Member of the board of directors of Harvest Natural Resources, White Deer Energy, the Maguire Energy Institute, the World Affairs Council of Dallas/Fort Worth, and the Chairman of the Board of Regents of Seton Hall University ¡ Member of the American Petroleum Institute (API) and the Society of Petroleum Engineers (SPE) ¡ Previously served as a director of Rancher Energy Corporation Inc. and Wellstream Holdings, Plc ¡ Received his B.Sc. (Accounting) and MBA from Seton Hall University

Kevin A. Neveu Calgary, Alberta, Canada Citizenship: Canada Appointed Chief Executive Officer and a director in August 2007 Became President and Chief Executive Officer in January 2009	¡ From 2002 to 2007, President of the Rig Solutions Group of National Oilwell Varco in Houston, where he was responsible for the company's drilling equipment business ¡ Held senior management positions with National Oilwell Varco and its predecessor companies in London, Moscow, Houston, Edmonton and Calgary over the past 25 years, and was President, Downhole Tools from 1999 to 2002 ¡ Serves on the boards of RigNet, Inc. in Houston, Texas, and Bonanza Creek Energy Inc. based in Colorado ¡ Appointed a member of the board of directors and a member of the Executive Committee of the International Association of Drilling Contractors in Houston, Texas in January 2010, and in 2012 became a member of the Canadian Council of Chief Executives and a member of the Advisory Council for the School of Public Policy at the University of Calgary ¡ Also serves as a director of the Heart and Stroke Foundation of Alberta (since 2009), and as a director of a not-for-profit national sports governing organization ¡ Holds a Bachelor of Science degree in mechanical engineering from the University of Alberta ¡ Professional Engineer, as designated by the Association of Professional Engineers, Geologists and Geophysicists of Alberta ¡ Completed the Advanced Management Program at Harvard Business School in 2002
Robert L. Phillips, Q.C. Vancouver, British Columbia, Canada Citizenship: Canada Director since May 2004 Appointed Chairman of the Board in August 2007 Member: Audit Committee Corporate Governance, Nominating and Risk Committee Human Resources and Compensation Committee	¡ Experienced senior corporate executive and was most recently 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, 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. ¡ Has served on the boards of publicly-traded and private corporations for more than 25 years, including several oil and gas exploration and production and oilfield service companies. Also currently serves on the boards of several major Canadian corporations. ¡ Is an active private investor, and is a graduate chemical engineer and practised corporate and securities law for over 15 years ¡ Received his B.Sc. in chemical engineering and LLB from the University of Alberta

Other important information about the directors

Except as noted below, no director or executive officer is or has been:

- a director, chief executive officer or chief financial officer of any company in the last 10 years that during their term or after leaving the role if the triggering event occurred during their term was:
  - the subject of a cease trade order (or similar order), or
  - denied access to any exemption under securities legislation (for more than 30 consecutive days)

In addition, no director or executive officer, nor any shareholder holding a sufficient number of Precision shares to materially affect control of Precision, is or has been:

- personally, or a director or executive officer of a company in the last 10 years that, during their term or within a year of leaving the role:
  - became bankrupt
  - made a proposal under any bankruptcy or insolvency laws
  - 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
- personally:
  - subject to penalties or sanctions imposed by a court related to Canadian securities legislation or a Canadian securities regulatory authority
- party to a settlement with a Canadian securities regulatory authority, or
- subject to any other penalties or sanctions imposed by a court or regulatory body that a reasonable investor would consider important.

- Patrick 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 U.S. Bankruptcy Court for the District of Colorado. Rancher has since reorganized and sold its assets.

- Robert Gibson became the sole director of 358427 Alberta Ltd. in 1995 at the request of shareholders and with the consent of the majority of creditors. The company was insolvent at the time, and Mr. Gibson managed the liquidation of the company's assets with the general consent of its creditors. A bankruptcy petition was filed with the consent of all interested parties to resolve a dispute relating to certain assets of the company. The dispute was resolved in 2005 by negotiation between the parties.

- Robert Gibson was also a director of International Utility Structures Inc. from February 1994 to November 2003. In August 2003, the company was unable to make a scheduled interest payment on its senior subordinated notes and was declared in default of its debt obligations. It obtained an order from the Court of Queen's Bench of Alberta in October 2003 under the Companies' Creditors Arrangement Act (Canada) (CCAA) so it could restructure its affairs in an orderly manner. A chief restructuring officer was appointed, and restructured the company's business and affairs under CCAA protection.

Audit Committee

The Audit Committee currently has six members:

- Allen R. Hagerman (chair)
- William T. Donovan, Brian J. Gibson, Robert J.S. Gibson, Patrick M. Murray and Robert L. Phillips

The Audit Committee is a standing committee appointed by the board of directors to assist it in fulfilling its oversight responsibilities with respect our financial reporting.

Each member of the Audit Committee must be independent and financially literate to meet regulatory requirements in Canada and the U.S., and the NYSE corporate governance standards. The board looks at the director's ability to read and understand the financial statements of an operating business with similar complexity as Precision in determining whether a director is financially literate, and has determined that each member is independent and financially literate within the meaning of National Instrument 52-110 and the corporate governance standards of the NYSE.

Mr. Donovan, Mr. Brian Gibson, Mr. Hagerman and Mr. Murray are all considered financial experts. They meet the requirements because of their training and expertise.

Relevant education and experience

Each Audit Committee member has the general business experience and education that are relevant to performing his responsibilities as a member of the committee:

- Allen R. Hagerman (chair) 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, his FCA designation in 1996 from the Institute of Chartered Accountants of Alberta and his Corporate Finance Qualification (CF) from the Canadian Institute of Chartered Accountants. Mr. Hagerman also received an MBA from the Harvard Business School in 1977 and his ICD.D designation from the Institute of Corporate Directors in 2005. Mr. Hagerman was appointed to the Audit Committee in May 2007.

- William T. Donovan is the Chairman of Rockland Industrial Holdings, LLC of Milwaukee, Wisconsin, was a director of Grey Wolf, Inc. from 1997 until it was acquired by Precision Drilling Trust in December 2008, and was the Chief Financial Officer of Christina Companies, Inc. prior to February 1999. Mr. Donovan has a B.Sc. degree (1974) and an MBA (1976) from the University of Notre Dame. Mr. Donovan was appointed to the Audit Committee in December 2008.

- Brian J. Gibson is a private investor and has a lengthy investment career that required extensive knowledge and analysis of public company financial statements and control standards. Previously he was the Senior Vice President, Equities of AIMCo., Precision's largest shareholder. He was President of Panoply Capital Asset Management Inc.,a private investment firm, from January 2008 to December 2008 and was the Senior Vice President, Public Equities for the Ontario Teachers' Pension Plan from August 1992 to January 2008. Mr. Gibson received his B.Comm. from Laurentian University and MBA from the University of Toronto, and is a Chartered Financial Analyst. He is a graduate of the Directors' Education Program sponsored by the Institute of Corporate Directors. Mr. Gibson was appointed a member of our Audit Committee in July 2012, when he was no longer an employee of AIMCo. and therefore independent for purposes of serving as a member of the Audit Committee under the NYSE rules.

- Robert J. S. Gibson is the President of Stuart & Company Limited and has been a member of the Audit Committee since June 1997. He has been the President and Chief Executive Officer of a private investment firm, Stuart & Company Limited since 1993. He has also been the Managing Director of Alsten Holdings Ltd since 1977 and the President of Sunchild Energy Resources Inc. since 1979. He is a graduate of the Directors' Education Program sponsored by the Institute of Corporate Directors.

- Patrick M. Murray is the retired Chairman, President and Chief Executive Officer of Dresser, Inc. Mr. Murray received a B.Sc. degree in Accounting in 1964 and an MBA in 1973 from Seton Hall University. Mr. Murray has been a member of our Audit Committee since April 2003.

- Robert L. Phillips' experience includes executive level positions at several corporations and a member of the board of 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.

Pre-approval policies and procedures

Under the committee charter, the Audit Committee must approve the external auditors' terms of engagement and the compensation to be paid by Precision. It must also review and pre-approve all permitted non-audit services that will be provided by the auditors, or any of its affiliated entities, to Precision or any of its affiliates subject to a minimum level under applicable law.

The committee implemented specific procedures on pre-approving services to be provided by the external auditors in 2003 and that also specified certain services that the auditors are prohibited from performing. Management, together with the external auditors, must prepare a list of the proposed services for the coming year and submit it to the committee for its review and approval.

If the list includes services that have not been pre-approved by the committee, the Chairman of the Audit Committee has the authority to pre-approve the services, as long as he presents them to the full committee at its next scheduled meeting for ratification. The Audit Committee receives an update on the status of any pre-approved services at each regular meeting.

Since these procedures were implemented in 2003, 100% of each of the services provided by the external auditors relating to the fees reported as audit, audit-related, tax and all other fees were pre-approved by the Audit Committee or its delegate.

See Appendix A for a copy of the Audit Committee Charter.

Audit fees

The table below shows the fees billed to us and our affiliates for professional services provided by KPMG LLP, our external auditor, in fiscal 2012 and 2011:

Years ended December 31	2012	2011
Audit fees fees billed to us for professional audit services	$1,561,000	$1,943,000
Audit-related fees for assurance and other services that relate to the performance of the audit or review of our financial statements and are not reported as audit fees	–	–
Tax fees for tax compliance services, tax advice and tax planning, including assistance and advice related to preparing income tax returns for us and our subsidiaries, expatriate tax compliance matters and general tax advice	495,000	361,000
All other fees for translating financial information to French	–	36,000
Total	$2,056,000	$2,340,000

Executive officers

The table below provides information about each executive officer, including his or name, place of residence, positions and offices held since joining Precision, and principal occupation during the previous five years:

Kevin A. Neveu Calgary, Alberta, Canada	¡ Appointed Chief Executive Officer and a director in August 2007 and became President and Chief Executive Officer in January 2009 ¡ From 2002 to 2007, was President of the Rig Solutions Group of National Oilwell Varco in Houston, where he was responsible for the company's drilling equipment business ¡ Over the past 25 years, Mr. Neveu has held senior management positions with National Oilwell Varco and its predecessor companies in London, Moscow, Houston, Edmonton and Calgary, and was President, Downhole Tools from 1999 to 2002 ¡ Serves on the boards of RigNet, Inc. in Houston, Texas, and Bonanza Creek Energy Inc. based in Colorado ¡ Appointed a member of the board of directors and a member of the Executive Committee of the International Association of Drilling Contractors in Houston, Texas in January 2010 and in 2012 became a member of the Canadian Council of Chief Executives and a member of the Advisory Council for the School of Public Policy at the University of Calgary ¡ Also serves as a director of the Heart and Stroke Foundation of Alberta (since 2009), and as a director of a not-for-profit national sports governing organization ¡ Holds a Bachelor of Science degree in mechanical engineering from the University of Alberta ¡ Professional Engineer, as designated by the Association of Professional Engineers, Geologists and Geophysicists of Alberta ¡ Completed the Advanced Management Program at Harvard Business School in 2002
Joanne L. Alexander Calgary, Alberta, Canada	¡ Senior Vice President, General Counsel and Corporate Secretary since February 2012 ¡ Vice President, General Counsel and Corporate Secretary since 2009 ¡ Vice President and General Counsel since 2008 ¡ General Counsel of Marathon Oil Canada Corporation from 2007 to 2008 ¡ General Counsel of Western Oil Sands Inc. in 2007
Niels Espeland Dubai, United Arab Emirates	¡ President of International Operations since 2011 ¡ Group Vice President, Drilling for Weatherford International from 2007 to 2011 ¡ Managing Director, Middle East and Africa for KCA Deutag from 2001 to 2007
Douglas B. Evasiuk Houston, Texas, U.S.A.	¡ Senior Vice President, Sales and Marketing – North America since February 2012 ¡ Vice President, Sales and Marketing – North America from February 2011 to February 2012 ¡ Vice President, Sales and Marketing from 1999 to 2011
Kenneth J. Haddad Houston, Texas, U.S.A.	¡ Senior Vice President of Business Development since February 2012 ¡ Vice President of Business Development from 2008 to February 2012 ¡ Director of Mergers & Acquisitions at Halliburton Company from 2002 to 2008

Robert J. McNally Calgary, Alberta, Canada	¡ Executive Vice President and Chief Financial Officer since 2010 ¡ 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 ¡ Executive Vice President of Finance and Operations and a member of the board of directors of Warrior Energy Services Corporation from 2006 to 2007
Darren J. Ruhr Calgary, Alberta, Canada	¡ Senior Vice President of Corporate Services since January 2012 ¡ Vice President of Corporate Services from 2009 to January 2012 ¡ Vice President of Corporate Services & Corporate Secretary from 2005 to 2009
Gene C. Stahl Houston, Texas, U.S.A	¡ President of Drilling Operations since 2008 ¡ President and Chief Operating Officer from 2005 to 2008
Douglas J. Strong Calgary, Alberta, Canada	¡ President of Completion and Production Services since 2010 ¡ Chief Financial Officer from 2005 to 2010

As at March 1, 2013, our directors and executive officers as a group beneficially owned, or controlled or directed, directly or indirectly, 1,567,838 common shares (approximately 0.6% of our issued and outstanding common shares).

OTHER INFORMATION

Controls and procedures

Evaluation of disclosure controls and procedures

Management, including our principal executive officer and our principal financial and accounting officer, evaluated the effectiveness of our *disclosure controls and procedures* (defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2012.

Based on that evaluation, our principal executive officer and principal financial and accounting officer have concluded that our disclosure controls and procedure as of December 31, 2012 are effective in ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is:

- recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and
- accumulated and communicated to management, including the principal executive officer and principal financial and accounting officer, so they make timely decisions about the required disclosure.

While our principal executive officer and principal financial and accounting officer believe that our disclosure controls and procedures are effective and provide a reasonable level of assurance, they do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the system are met regardless of how well it was designed or functioning.

Internal control over financial reporting

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

Management, including our principal executive officer and principal financial and accounting officer, supervised and participated in an evaluation of the design and effectiveness of our internal control over financial reporting as of the end of 2012. The evaluation was based on *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that we maintained effective control over our financial reporting as of December 31, 2012.

There were no changes in our internal control over financial reporting in 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Management's discussion and analysis

Management's discussion and analysis of our financial condition and results of operation (MD&A) relating to our consolidated financial statements for the fiscal year ended December 31, 2012 forms part of our 2012 annual report and is incorporated by reference in this AIF. The MD&A appears on pages 3 to 43 of our 2012 annual report.

Transfer agent and registrar

Computershare Trust Company of Canada, located in Calgary, Alberta, is the transfer agent and registrar of our common shares. In the U.S., our co-transfer agent is Computershare Trust Company NA located in Golden, Colorado.

Additional information about Precision

Additional information about Precision is available on our website (www.precisiondrilling.com) and on SEDAR (www.sedar.com). Copies are also available from us free of charge by contacting our Senior Vice President, General Counsel and Corporate Secretary:

Precision Drilling Corporation
800, 525 – 8th Avenue S.W.
Calgary, Alberta, Canada T2P 1G1

Email: corporatesecretary@precisiondrilling.com
Phone: 403.716.4500
Fax: 403.264.0251

Additional information is available in the following documents:

- Management information circular (including information about director and officer remuneration and indebtedness, principal holders of Precision's shares and shares authorized for issuance under Precision's equity compensation plans) for the annual and special meeting of shareholders to be held on May 8, 2013.
- Our 2012 annual report containing our annual consolidated financial statements and MD&A for the year ended December 31, 2012.

Copies are available on SEDAR (www.sedar.com).

APPENDIX A

Audit Committee Charter

1. General

The purpose of this document is to establish the terms of reference of the Audit Committee (the "Committee") of Precision Drilling Corporation (the "Corporation"). The Committee is a permanent committee of the Board of Directors of the Corporation (the "Board of Directors") appointed to assist the Board of Directors in fulfilling its oversight responsibilities with respect to financial reporting by the Corporation. Responsibility for accounting for transactions and internal control over financial reporting lies with senior management of the Corporation.

The requirement to have an audit committee is established in Section 171 of the *Business Corporations Act* (Alberta) and, in addition, is required pursuant to the *Securities Act* (Alberta) and the United States *Securities Exchange Act of 1934* for issuers listed on the New York Stock Exchange (the "NYSE").

The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities with respect to:

- the integrity of financial reporting to the Shareholders and the investment community;
- the integrity of the accounting and financial reporting process and system of controls, including the internal and external audit process;
- the Corporation's compliance with legal and regulatory requirements as they relate to financial reporting matters;
- the external auditor's qualifications and independence;
- Audit Services' reporting protocol and independence;
- the work and performance of the Corporation's financial management, Audit Services function and its external auditor; and
- any other matter specifically delegated to the Committee by the Board of Directors or mandated under applicable laws, rules and regulations as well as the listing standards of the TSX and NYSE.

2. Committee Responsibilities

The Committee shall in respect of operations of the Committee:

Committee Governance:

- annually establish a set of objectives for the Committee for the respective calendar year, with the status of such objectives to be reviewed and evaluated by the Committee on a quarterly basis;
- meet in an *in*-camera session regularly with the external auditor, the head of Audit Services and members of Management;
- meet in separate non-management, closed sessions with any other internal personnel or outside advisors, as necessary or appropriate;
- review annually its own performance;
- review annually the continuing education efforts undertaken by the members of the Committee during the preceding year;

Oversight:

- review and discuss with Management and the external auditor the interim and annual 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 and periodically assess the adequacy of those procedures;

- review and discuss with Management and the external auditor, as applicable, (a) all critical accounting policies and practices to be used in the annual audit, (b) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; (c) analyses prepared by Management or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative International Financial Reporting Standards ("IFRS") methods on the financial statements of the Corporation and any other opinions sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item; (d) any 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; (e) 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; (f) any reserves, accruals, provisions or estimates that may have a significant effect upon the financial statements of the Corporation; (g) 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 (h) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles;

- review and discuss the Corporation's earnings press releases (paying particular attention to any use of "pro forma", "adjusted" or "non-GAAP" information) as well as financial information and earnings guidance provided to analysts and rating agencies, it being understood that such review may in the discretion of the Committee, be done generally (i.e. by discussing the types of information to be disclosed and the type of presentation to be made);

- review any legal regulatory or compliance matter, claim or contingency that could have a significant impact on the financial statements of the Corporation, the Corporation's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Corporation's financial statements;

- review the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Corporation's operations;

- review the interim review findings report of the external auditor before the release of interim financial statements of the Corporation;

- in coordination with the Corporate Governance, Nominating and Risk Committee's oversight of risk, review and discuss with Management the Corporation's major financial risk exposures and the steps Management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies such as financial derivatives and hedging activities;

- discuss with Management and the external auditors any accounting adjustments that were noted or proposed by the external auditors or Audit Services but were not adopted (as immaterial or otherwise), any communications from the external auditors national office regarding auditing or accounting issues and Management or internal control letters issued, or proposed to be issued by the Corporation's external auditor and Management's response to such letters;

- discuss with the external auditors, without Management being present, (a) their judgment about the quality, integrity and appropriateness of the Corporation's accounting principles and financial disclosure practices as applied in its financial reporting and (b) the completeness and accuracy of the Corporation's statements;

- review the adequacy and effectiveness of the Corporation's internal accounting and financial controls based on recommendations from Management, Audit Services and the external auditor for the improvement of accounting practices and internal controls;
- establish and periodically review procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters or other matters that could negatively affect the Corporation, such as violations of the Joint Code of Business Conduct and Ethics;
- review with Management, Audit Services and external auditors any significant complaints received related to disclosure, financial controls, fraud or related matters;
- review other financial information included in the Corporation's Annual Report to ensure that it is consistent with the Board of Directors' knowledge of the affairs of the Corporation and is unbiased and non-selective;
- if requested by the Board of Directors, receive from the Chief Executive Officer and Chief Financial Officer of the Corporation a certificate certifying in respect of each annual and interim report of the Corporation the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws and receive and review disclosures made by such officers about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving Management or persons who have a significant role in the Corporation's internal controls;
- review and oversee the Corporation's Forward Looking Statement Register as maintained by the Disclosure Committee of the Corporation;
- cause to be prepared any report required by law, regulations or stock exchange requirement to be included in the Corporation's periodic reports;

Dealing with Auditors:

- review the scope and plan of work to be done by the external auditor;
- approve the terms of the external auditor's engagement letter and the compensation to be paid by the Corporation to the external auditor;
- review the reasons for any proposed change in the external auditor and any other significant issues related to the change, including the response of the incumbent external auditor, and enquire as to the qualifications of the proposed external auditor before making its recommendations to the Board of Directors;
- be directly responsible for appointment, compensation, retention (including termination) and oversight of the work of any auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between Management or Audit Services and the external auditor regarding financial reporting or the application of any accounting principles or practices;
- require the external auditor and Audit Services department to report directly to the Committee;
- provide the external auditor with notice of every meeting of the Committee and, at the expense of the Corporation, the opportunity to attend and be heard thereat, and if so requested by a member of the Committee, require the external auditor to attend every meeting of the Committee held during the term of the office of the external auditor;
- pre-approve all auditing services to be provided by the external auditors and non-audit services to be performed for 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 audit and permitted non-audit services, provided any audit or non-audit services that have been pre-approved by any such delegate of the Committee must be presented to the Committee for ratification at its first scheduled meeting following such pre-approval;

- review and approve the disclosure with respect to audit and non-audit services provided by the external auditors;
- review with the external auditor and Management the general audit approach and scope of proposed audits of the financial statements of the Corporation, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
- annually request and review a report from the external auditor regarding (a) the external auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal 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 any steps taken to deal with any such issues; and (c) to assess the auditor's independence, including all relationships between the external auditor and the Corporation;
- evaluate the qualifications and performance of the external auditor, review and approve hiring policies for partners, employees or former employees of the external auditor and make recommendations to the Board of Directors as to the appointment or reappointment of the external auditor to be proposed for approval by the Shareholders;
- ensure that the lead audit partner of the external auditor and the audit partner responsible for reviewing the audit are rotated at least every five years as required by the *Sarbanes-Oxley Act* of 2002 and Regulation S-X, and further consider rotation of the external auditor firm itself;
- review the results of the annual external audit, including the audit report to the Corporation's Shareholders and any other reports prepared by the external auditors and the informal reporting from the external auditor on accounting systems and internal controls, including Management's response;
- review annually the administrative reporting protocol for the head of Audit Services, as well as the performance and compensation for the Audit Services group;
- review and approve the annual Audit Services' internal audit plan and all major changes to the plan, the internal auditing budget and staffing;
- consider and review the following issues with Management and the head of the Audit Services group:
  - significant findings of the Audit Services group as well as Management's response to them;
  - any difficulties encountered in the course of their internal audits, including any restrictions on the scope of their work or access to required information;
  - the Audit Services Charter; and
  - compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*;
- approve the appointment, remuneration of replacement or dismissal of the head of the Audit Services group; and
- direct the head of the Audit Services group to review any specific areas the Committee deems necessary.

Insurance:

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

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

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

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

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

3. Committee Structure and Authority

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 qualification is interpreted by the Board of Directors in its business judgment in light of, and in accordance with, the applicable requirements or guidelines. At least one of the members of the Committee must also have "accounting or related management financial expertise" as such qualification is interpreted by the Board of Directors in its business judgment in accordance with the applicable requirements or guidelines.

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

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.

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.

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

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.

Reporting to the Board of Directors
The Committee will report through the Chair of the Committee to the Board of Directors on matters considered by the Committee, its recommendations and performance relative to annual objectives and its Charter.

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

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

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

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

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

Outside Experts and Advisors
The Committee may retain any outside expert or advisor, including but not limited to, legal, accounting, financial or other consultants, at the Corporation's expense, as it determines necessary to carry out its duties. The Committee will assure itself as to the independence of any outside expert or advisor.

Approved effective February, 2013

Management's Discussion and Analysis
Consolidated Financial Statements and Notes

Precision Drilling Corporation 2012

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Management's Discussion and Analysis

This management's discussion and analysis (MD&A) contains information to help you understand our business and financial performance. Information is as of March 8, 2013. This MD&A focuses on our consolidated financial statements, and includes a discussion of known risks and uncertainties relating to the oilfield services sector. It does not, however, cover the potential effects of general economic, political, governmental and environmental events, or other events that could affect us in the future.

You should read this MD&A with the accompanying audited consolidated financial statements and notes, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and with the information in *About forward-looking information* on page 4. We began reporting under IFRS effective January 1, 2011, and restated our 2010 results at that time. 2009 and prior years are presented in accordance with previous Canadian Generally Accepted Accounting Principles (Previous Canadian GAAP).

The terms, *we, us, our, corporation* and *Precision* mean Precision Drilling Corporation and all of our consolidated subsidiaries and any partnerships that we and/or our subsidiaries are part of.

All amounts are in Canadian dollars unless otherwise stated.

ABOUT FORWARD-LOOKING INFORMATION

We disclose forward-looking information to help current and prospective investors understand our future prospects. This MD&A contains statements about what we believe, intend and expect about developments, results and events that may or will occur in the future and are forward-looking within the meaning of Canadian securities legislation and 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 in this MD&A:

- typically include words and phrases about the future, such as *anticipate, could, should, can, expect, seek, may, intend, likely, will, plan, estimate* and *believe*
- are based on certain assumptions and analyses based on our experience, understanding of historical trends, current conditions and expected future developments, and other factors we believe are appropriate given the circumstances
- can be affected by known and unknown risks, uncertainties and other factors which could cause actual results to differ materially from our expectations.

Actual results, performance or achievements may be significantly different from what is expressed or implied in the forward-looking information.

Our forward-looking information includes statements about the following, among other things:

- performance of the oil and natural gas industry, including commodity prices
- our capital expenditures and potential international expansion
- 2013 strategic plans
- deployment of additional rigs, building new ones and upgrading existing ones
- the obsolescence of Tier 3 rigs in North American markets over the next few years and Precision exiting the Tier 3 contract drilling business
- the supply and demand for oil and natural gas
- demand for our equipment and services
- the potential impact of current or anticipated regulatory regimes and tax, environmental, health, safety and other laws
- the potential impact of seasonal and weather conditions, competition in markets where we compete, technology advances, finding and retaining employees, reliance on suppliers, credit market conditions, access to additional financing, foreign exchange, international operations as well as other risks and uncertainties discussed herein
- payment of quarterly dividends
- our future growth potential
- remaining compliant with financial ratio covenants
- amounts of contractual obligations not yet accrued.

Risks and uncertainties

This MD&A discusses a number of risks and uncertainties, including the following among others:

- fluctuations in the price and demand for oil and natural gas
- fluctuations in the level of oil and natural gas exploration and development activities
- fluctuations in the demand for contract drilling, directional drilling, well servicing and ancillary oilfield services
- liquidity of the capital markets to fund customer drilling programs
- availability of cash flow, debt and/or equity sources to fund our capital and operating requirements, as needed
- the sustainability of our dividend
- the impact of seasonal and weather conditions on operations and facilities
- competitive operating risks inherent in contract drilling, directional drilling, well servicing and ancillary oilfield services
- ability to improve our rig technology to improve drilling efficiency
- general economic, market or business conditions
- changes in laws or regulations
- availability of qualified personnel, management or other key inputs
- currency exchange fluctuations
- operating in foreign countries
- other unforeseen conditions that could affect the use of our services
- other risks and uncertainties set out in this MD&A under the heading *"Risks to Achieve Our Strategy"*.

These risks and uncertainties are also discussed in our annual information form (AIF), on file with the Canadian securities commissions on SEDAR (www.sedar.com) and with the SEC on EDGAR (www.sec.gov).

All of the forward-looking information and statements made in this MD&A are qualified by these cautionary statements. There can be no assurance that actual results or developments anticipated by us will be realized. We caution you not to place undue reliance on forward-looking information and statements. We will not necessarily update or revise this forward-looking information as a result of new information, future events or otherwise, unless we are required to by law.

ADDITIONAL GAAP MEASURES

In this MD&A we reference Generally Accepted Accounting Principles (GAAP) measures that are not defined terms under IFRS to assess performance because we believe they provide useful supplemental information to investors.

Adjusted EBITDA

We believe that Adjusted EBITDA (earnings before income taxes, finance charges, foreign exchange, impairment of goodwill, loss on asset decommissioning and depreciation and amortization) as reported in the Consolidated Statement of Earnings is a useful supplemental measure, because it gives an indication of the results from our principal business activities prior to consideration of how our activities are financed and the impact of foreign exchange, taxation, non-cash depreciation and amortization charges and non-cash decommissioning charges.

Operating earnings

We believe that operating earnings, as reported in the Consolidated Statement of Earnings, is a useful measure of our income because it provides an indication of the results of our principal business activities before consideration of how our activities are financed and the impact of foreign exchange and taxation.

Funds provided by operations

We believe that funds provided by operations, as reported in the Consolidated Statement of Cash Flow, is a useful measure because it provides an indication of the funds our principal business activities generated prior to consideration of working capital, which is primarily made up of highly liquid balances.

1

About Precision

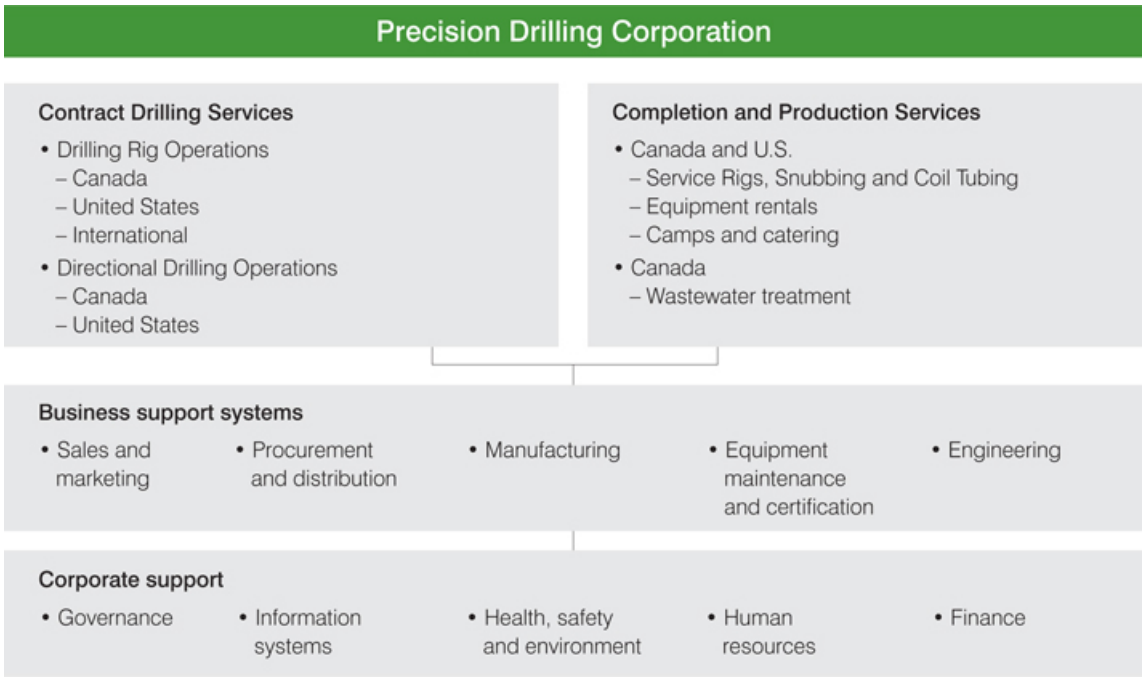
Precision Drilling provides onshore drilling and completion and production services to exploration and production companies in the oil and natural gas industry.

Headquartered in Calgary, Alberta, Canada, we are Canada's largest oilfield services company, and one of the largest drillers in the United States. We also have operations in Mexico and Saudi Arabia, and have announced long-term contracts for other areas in the Middle East.

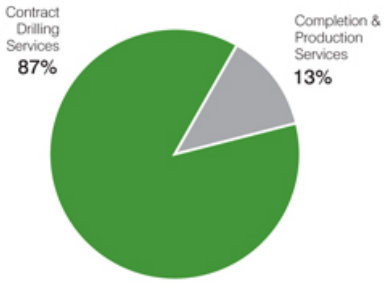
Our shares trade on the Toronto Stock Exchange under the symbol PD, and on the New York Stock Exchange under the symbol PDS.

Two business segments

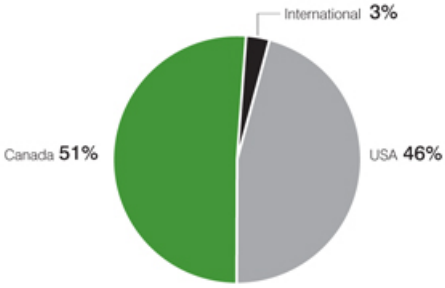
We operate our business in two segments, supported by vertically integrated business support systems.



2012 Adjusted EBITDA by Segment



2012 Revenue by Region



Vision

Our vision is to be recognized as the High Performance, High Value provider of services for global energy exploration and development.

Strategy

2012 strategic priorities	2012 results
Execute our High Performance, High Value strategy Continue to deliver safe, reliable, predictable and repeatable performance with high environmental responsibility and community standards.	Improved safety performance in both operating segments in 2012, matching the best results in our history.
Execute on existing organic growth opportunities including contracting additional new build and upgraded drilling rigs, adding assets and people to the directional drilling and Completion and Production Services businesses and pursuing additional rig deployments internationally. Continue to evaluate accretive acquisitions.	Delivered 36 new build Tier 1 Super Series drilling rigs to customers on long-term contracts and upgraded 11 existing drilling rigs to higher specification assets under long-term contracts. Established footprint in the Middle East and expanded international operations from two rigs to eight operating at the end of the year. However, start-up activities took longer than expected. Expanded service lines in Completion and Production Services adding higher end rental offerings and entered the coil tubing business. Expanded penetration into Northern U.S. markets. Over the past two years, we have grown our directional drilling business but financial results and utilization have been weaker than expected.
Build our brand Continue to promote Precision's High Performance, High Value brand with customers, employees, investors and within the communities in which we operate.	Had strong Canadian and U.S. dayrates throughout 2012 and exceeded employee retention goals across all targeted skill positions. Increased recognition from U.S. and international investors while retaining strong support from Canadian base.

Strength and flexibility

From our founding as a private drilling contractor in the 1950s, Precision Drilling has grown to become one of the most active drillers in North America.

- a competitive operating model drives efficiency, quality and cost control
- size and scale provide higher margins and better service
- strong liquidity position allows us to take advantage of opportunities throughout business cycles
- capital structure provides long-term stability and flexibility

2012 Highlights and Outlook

Adjusted EBITDA and funds provided by operations are additional GAAP measures.

Please see page 5 for more information.

Financial highlights

Year ended December 31 *(thousands of $, except where noted)*	**2012**	**% increase/ (decrease)**	2011	% increase/ (decrease)	2010	% increase/ (decrease)
Revenue	**2,040,741**	**4.6**	1,951,027	36.5	1,429,653	19.4
Adjusted EBITDA	**670,792**	**(3.5)**	695,064	59.8	434,908	6.9
Adjusted EBITDA % of revenue	**32.9%**		35.6%		30.4%	
Net earnings	**52,360**	**(72.9)**	193,477	344.4	43,535	(73.1)
Cash provided by operations	**635,286**	**19.2**	532,772	74.0	306,264	(39.3)
Funds provided by operations	**598,812**	**1.1**	592,388	46.6	404,165	21.9
Investing activities						
Capital spending:						
Expansion	**596,194**	**30.9**	455,302	539.7	71,179	(56.4)
Upgrade	**130,094**	**(13.2)**	149,811	174.0	54,683	3,007.0
Maintenance and infrastructure	**141,769**	**16.9**	121,244	142.3	50,039	75.3
Proceeds on sale	**(31,423)**	**96.6**	(15,983)	30.4	(12,256)	(23.3)
Net capital spending	**836,634**	**17.8**	710,374	334.1	163,645	(7.8)
Business acquisitions (net of cash acquired)	**25**	**(100.0)**	92,886	n/m	–	–
Earnings per share *($)*:						
Basic	**0.19**	**(72.9)**	0.70	337.5	0.16	(75.4)
Diluted	**0.18**	**(73.1)**	0.67	346.7	0.15	(76.2)
Dividends per share *($)*	**0.05**	**n/m**	–	–	–	–

n/m – calculation not meaningful.

Operating highlights

Year ended December 31	**2012**	**% increase/ (decrease)**	2011	% increase/ (decrease)	2010	% increase/ (decrease)
Contract drilling rig fleet	**321**	**(4.7)**	337	(5.1)	355	0.9
Drilling rig utilization days:						
Canada	**32,352**	**(14.8)**	37,970	21.8	31,176	46.9
United States	**34,597**	**(8.7)**	37,887	16.8	32,450	43.1
International	**2,086**	**197.2**	702	16.6	602	(15.2)
Service rig fleet	**214**	**3.4**	207	(5.9)	220	–
Service rig operating hours[1]	**294,681**	**(7.2)**	317,418	7.9	294,126	33.9

[1] Prior year comparatives have been changed to include United States based service rig activity.

Financial position and ratios

Years ended December 31 *(thousands of $, except ratios)*	**2012**	2011	2010
Working capital	**278,021**	610,429	458,003
Working capital ratio	**1.7**	2.4	3.1
Long-term debt	**1,218,796**	1,239,616	804,494
Total long-term financial liabilities	**1,245,290**	1,267,040	834,813
Total assets	**4,300,263**	4,427,874	3,564,540
Enterprise value[1]	**3,213,406**	3,528,046	2,993,083
Long-term debt to long-term debt plus equity	**0.36**	0.37	0.29
Long-term debt to cash provided by operations	**1.92**	2.33	2.63
Long-term debt to enterprise value	**0.38**	0.35	0.27

[1] Share price multiplied by the number of shares outstanding plus long-term debt minus working capital. See page 40 for more information.

2012 OVERVIEW

Net earnings this year were $52 million or $0.18 per diluted share, compared to $193 million or $0.67 per diluted share in 2011. This year's results include the impact of charges associated with asset decommissioning, and an impairment charge to the goodwill attributable to our Canadian Directional Drilling operations.

Revenue this year was $2,041 million, or 5% higher than 2011, mainly due to higher drilling pricing in both Canada and the United States, growth in international operations, and product line expansion partially offset by lower utilization days in North America. Contract Drilling Services revenue was up 6%, while revenue from Completion and Production Services was down 1%. Our international drilling activity increased three-fold: an average of six rigs working in 2012 compared to two in 2011.

Adjusted EBITDA this year was $671 million, or 3% lower than 2011. Our adjusted EBITDA margin was 33% this year, compared to 36% in 2011. The decrease in adjusted EBITDA margin was mainly the result of higher average operating costs and lower equipment utilization in both Canada and the United States, partially offset by higher average dayrates in both Canada and the United States. Operating costs were higher because of labour related costs, repairs and maintenance costs and higher operating costs internationally. Our portfolio of term customer contracts, a highly variable operating cost structure and economies achieved through vertical integration of the supply chain all help us manage our adjusted EBITDA margin.

North America industry activity was down on the prior year as a result of volatile oil and natural gas prices, oil transportation bottlenecks resulting in regional oil price discounts, record inventory levels resulting in depressed natural gas prices and general global economic uncertainty persisting for much of the year.

In the fourth quarter of 2012 our Board of Directors approved the introduction of an annualized dividend of $0.20 per common share, payable quarterly.

Outlook

Contracts

Our strong portfolio of term customer contracts provides a base level of activity and revenue, and as at March 8, 2013 we have term contracts in place for an average of 96 rigs: 52 in Canada, 36 in the United States and 8 internationally in 2013. In Canada, term contracted rigs normally generate 250 utilization days per rig year because of the seasonal nature of well access. In most regions in the United States and internationally, they normally generate 365 utilization days per rig year.

Pricing, demand and utilization

The demand for energy has been rising as the global economic situation has improved and per capita energy consumption has increased in many developing countries. These demand fundamentals, along with the challenges of maintaining or growing global supply, have supported stronger oil prices since 2009.

Natural gas prices, however, remain depressed, reaching 10-year lows in 2012. Lower natural gas prices have persisted due to higher than average storage levels, increased production from unconventional resource development and the lack of an export market from North America. Despite lower industry-wide natural gas drilling activity, production remained stable, meeting or exceeding demand and keeping prices low.

Natural gas demand largely depends on the weather, and moderate North American winter temperatures in 2011 and 2012 hampered overall demand. Other demand drivers, however, like natural gas fired power generation and industrial applications, have shown positive growth over the past three years and are expected to continue, and the growing potential of liquefied natural gas ("LNG") export development could serve as a catalyst for natural gas directed drilling activity in the medium to long term.

Industry-wide drilling utilization has declined year-over-year in North America, however demand for the higher specification Tier 1 drilling assets has remained strong, supporting dayrates. We have deployed 60 new build Tier 1 Super Series drilling rigs since the beginning of 2010 for a total current fleet of 189 Tier 1 drilling rigs and we have upgradeable rigs within our fleet. We believe the existing new builds and potential rig upgrades favourably position us in the market for premium drilling rigs.

While the increase in oil and liquids rich natural gas drilling in areas like the Montney, Cardium, Bakken, Viking, Eagle Ford, Tuscaloosa, Niobrara and Granite Wash have been strong, the oil rig count at March 8, 2013 was 2% higher in the United States than it was a year ago, and 9% lower in Canada. The overall North American land oil directed rig count on March 8, 2013 was 3.9 times higher than it was on March 6, 2009. As exploration and production companies continue to improve unconventional oil drilling and completion techniques, we expect that the economics our customers realize will drive additional investment capital toward these unconventional plays, supporting drilling activity especially for Tier 1 rigs.

International

We contracted two new build 3000 horsepower (HP) drilling rigs in 2012 for deep drilling operations in Kuwait. The two new rigs are on long-term contracts and are expected to be deployed in 2014 on a long-term contract. We contracted two 2000 HP rigs for deep drilling operations in Northern Iraq in the Kurdistan region. The two rigs are existing Precision rigs that will be upgraded for desert operations. These rigs are expected to be deployed mid 2013 under a long-term contract. We also signed a contract for operations in Mexico that will add a rig to our Mexican fleet in the second quarter of 2013, increasing our active Mexican fleet to six rigs.

Upgrading the fleet

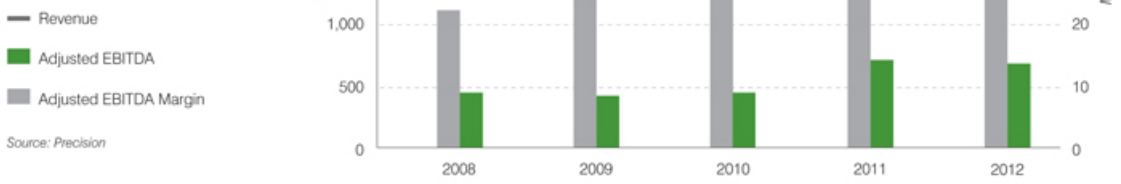
We and the land drilling industry are in the process of upgrading the drilling rig fleet by building new rigs and upgrading existing ones. We believe this "retooling" of the industry-wide fleet will make Tier 3 rigs virtually obsolete in North America over the next few years. In the fourth quarter of 2012 we decommissioned 42 Tier 3 drilling rigs and 10 Tier 2 rigs from our fleet. We are exiting the Tier 3 contract drilling business but will retain 26 drilling rigs for seasonal, stratification and turnkey drilling work. These will be categorized as "PSST" rigs. Our focus on the Tier 1 and Tier 2 market is aligned with our corporate strategy, customer relationships and competitive position.

Capital spending

We expect capital spending in 2013 to be approximately $526 million:

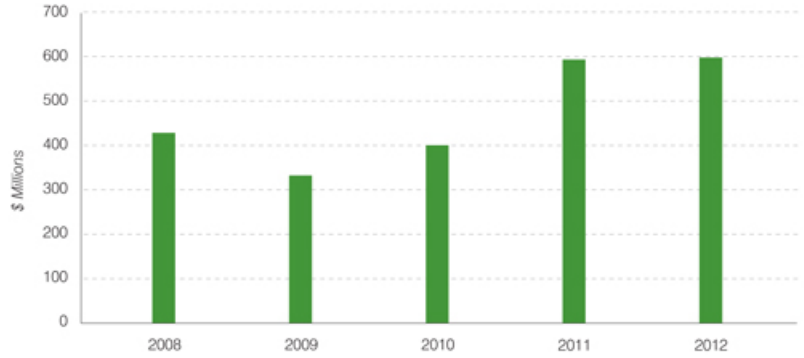
- $205 million for expansion capital, which includes the cost to complete the two remaining drilling rigs from the 2012 new build rig program, one new rig build for the North American market, the cost to complete about 50 percent of two new build rigs going to Kuwait and new equipment for our Completion and Production Services segment
- $127 million for upgrade capital, which includes the upgrade of approximately 20 rigs, including the two rigs going to Northern Iraq in the Kurdistan region
- $194 million for sustaining and infrastructure expenditures, which is based on currently anticipated activity levels, and the cost to consolidate and upgrade our Nisku, Alberta operations facility.

Revenue and EBITDA



Source: Precision

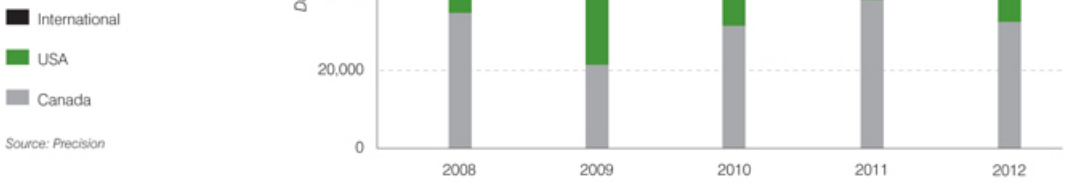
Funds From Operations



Note: 2008 and 2009 are prepared under previous Canadian Generally Accepted Accounting Principles

Source: Precision

Utilization Days



Source: Precision

Contract Drilling Services

We provide onshore drilling services to exploration and production companies in the oil and natural gas industry, operating in the U.S., Canada and internationally.

We are the second largest land drilling contractor in North American servicing approximately 24% of the land drilling market in Canada and five percent of the United States market. We also have an international presence with operations in Mexico and the Middle East.

At December 31, 2012, the segment consisted of:

- 321 land drilling rigs, including:
  - 186 in Canada
  - 127 in the U.S.
  - 3 in Saudi Arabia
  - 5 in Mexico
- capacity for approximately 91 concurrent directional drilling jobs in Canada and U.S.
- engineering, manufacturing and repair services primarily for Precision's operations
- centralized procurement, inventory and distribution of consumable supplies primarily for our Canadian, U.S. and Mexican operations.

Drilling rigs at December 31, 2012

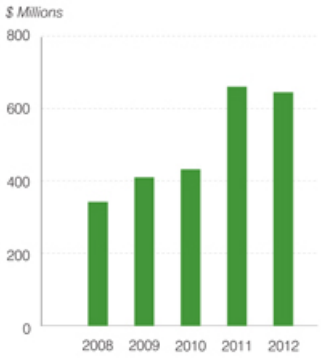
Horsepower	< 1000	1000-1500	> 1500	Total
Tier 1	94	89	5	188
Tier 2	64	25	18	107
PSST	17	4	5	26
Total	175	118	28	321

Geographic location	Canada	U.S.	International	Total
Tier 1	105	83	–	188
Tier 2	64	35	8	107
PSST	17	9	–	26
Total	186	127	8	321

Contract Drilling Revenue



Contract Drilling Adjusted EBITDA



Note: 2008 and 2009 are prepared under previous Canadian Generally Accepted Accounting Principles

Contract Drilling Utilization Days



4

Completion and Production Services

We provide completion and workover services and ancillary services and equipment rentals to oil and natural gas exploration and production companies primarily in Canada, with a growing presence in the U.S.

Service rigs and snubbing units each serve about 18% of the market for these services in Canada.

At December 31, 2012, the segment consisted of:

- 190 well completion and workover service rigs, including:
  - 185 in Canada
  - 5 in the U.S.
- 19 snubbing units, including:
  - 16 in Canada
  - 3 in the U.S.
- 5 coil tubing units, including:
  - 3 in Canada
  - 2 in the U.S.
- approximately 3,800 oilfield rental items including surface storage, small-flow wastewater treatment, power generation and solids control equipment and solids
- 243 wellsite accommodation units in Canada and 61 in the U.S.
- 50 drilling camps and three base camps in Canada and four drilling camps in the U.S.
- eight large-flow treatment units and six potable water production units in Canada

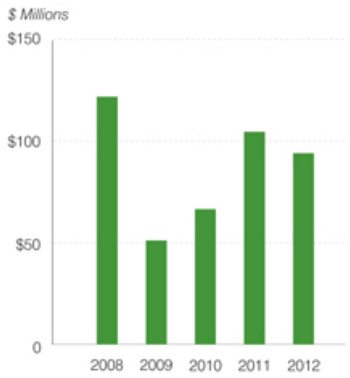
Canadian fleet as at December 31

Type of Service Rig	Horsepower	2008	2009	2010	2011	**2012**
Singles:						
Mobile	150-400	2	–	–	–	**–**
Freestanding mobile	150-400	97	94	94	90	**88**
Doubles:						
Mobile	250-550	42	28	25	19	**18**
Freestanding mobile	200-550	23	30	35	40	**38**
Skid	300-860	48	30	28	22	**22**
Slants:						
Freestanding	250-400	17	18	18	18	**19**
Total service rigs		229	200	200	189	**185**
Snubbing units		29	20	20	18	**16**
Coil tubing units		–	–	–	–	**3**
Total service rigs, snubbing units and coil tubing units		258	220	220	207	**204**

Completion & Production Revenue



Completion & Production Adjusted EBITDA



Note: 2008 and 2009 are prepared under previous Canadian Generally Accepted Accounting Principles

Completion and Production Service Rig Hours


Hours
400,000
300,000
200,000
100,000
0
2008
2009
2010
2011
2012

5

Understanding Our Business Drivers

THE ENERGY INDUSTRY

Precision operates in the energy services business, which is an inherently challenging cyclical industry. Customer demand depends on the price for their end products: oil, natural gas, and natural gas liquids. Oil is a more global commodity that depends on global oil economics, while natural gas and natural gas liquids are more regional energy commodities.

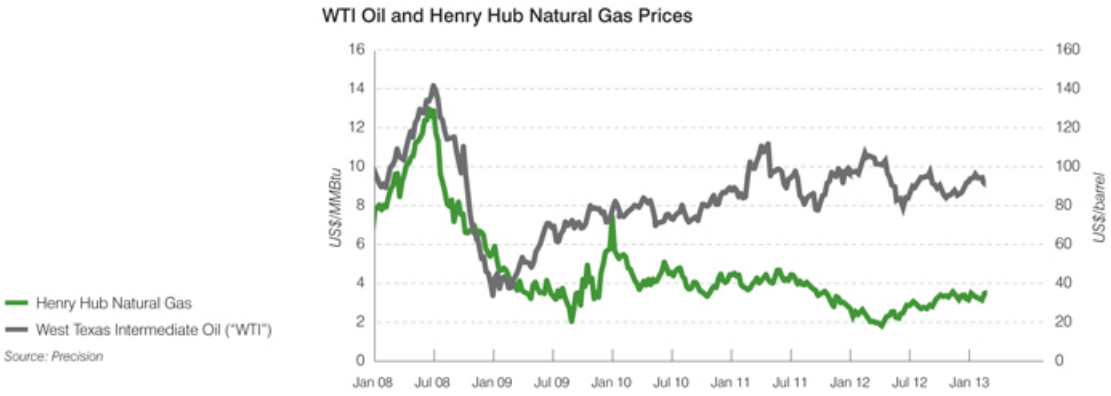
We depend on oil and natural gas exploration and production companies to contract us as part of their development. The economics of their business are dictated by the current and expected future margin between the cost to find and develop oil and natural gas, and the eventual prices of those products.

To excel in this environment, we operate using a business model designed to control risk and optimize performance. The model is directly linked to competitive strategy and reflected in our operating capabilities.

Commodity prices

Cash flow to fund exploration and development is dependent on commodity prices: higher prices increase cash flow and funding. Oil can be transported relatively easily and cheaply, so it is priced in a more global market influenced by an array of economic and political factors. Recently, transportation constraints have resulted in oil prices in North America decoupling from global prices. Natural gas and natural gas liquids continue to be priced regionally.

Oil prices moved lower during the economic crisis of 2008, but have increased since the beginning of 2009 as supply and demand fundamentals have tightened. Natural gas prices have dipped to levels that existed during the economic crisis of 2008, because increasing supplies of unconventional natural gas, particularly in North America, are keeping markets well supplied. This is keeping prices competitive compared to oil, and is supporting the projected growth in worldwide gas consumption.

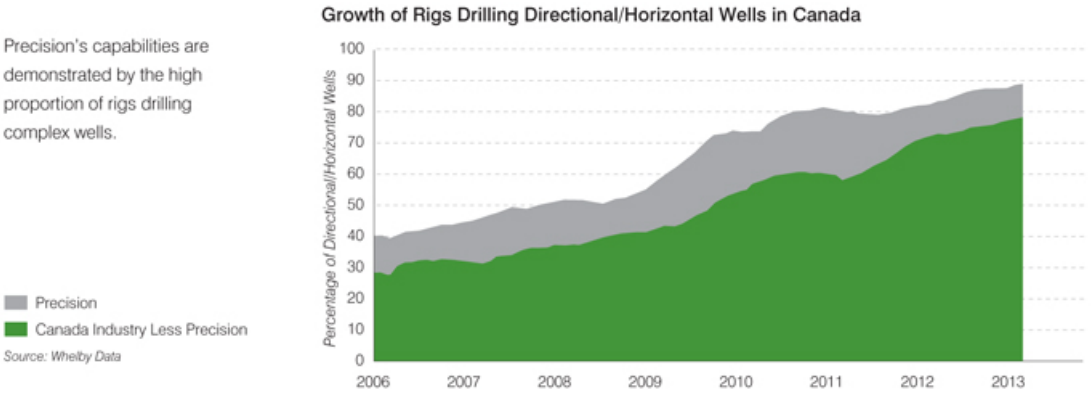


New technology

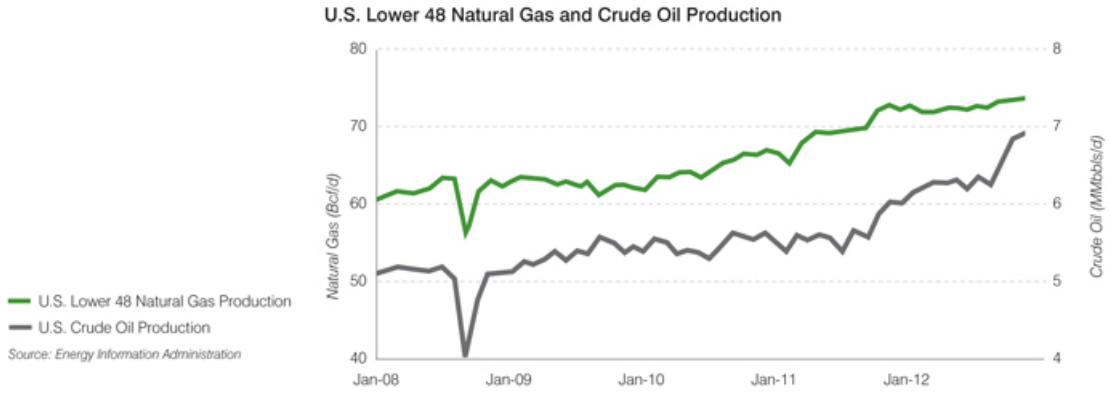
Recent technological advancements in fracturing, stimulation and horizontal drilling have brought about a shift in development from conventional to unconventional oil and natural gas reservoirs. This is giving companies cost-effective access to more complex wells in North America, in existing basins and in new basins that haven't been economic in the past.

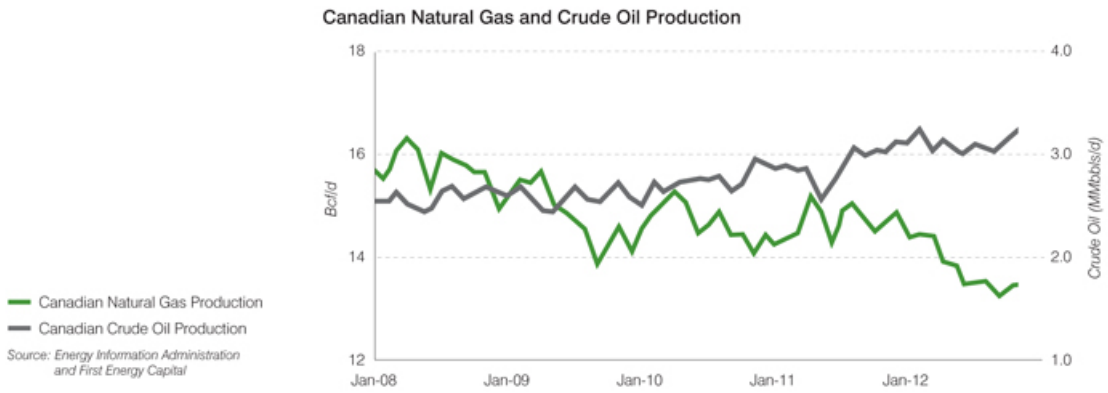
The following chart shows the consistent trend away from vertical wells to the more demanding directional/horizontal well programs, which require higher capacity equipment and greater technical expertise for drilling. These trends are driving the demand growth for high performing drilling rigs, which garner premium pricing.

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



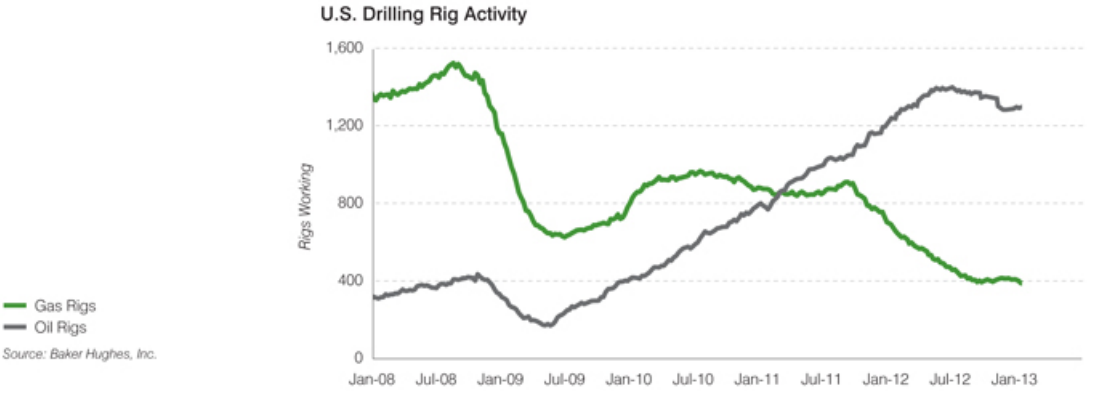
These technical innovations have been a major factor in the increase in natural gas production in the United States. Although oil production has been increasing in Canada, natural gas production is declining as the U.S. is becoming less reliant on Canada as a source of natural gas resulting in pricing pressure on Canadian natural gas.

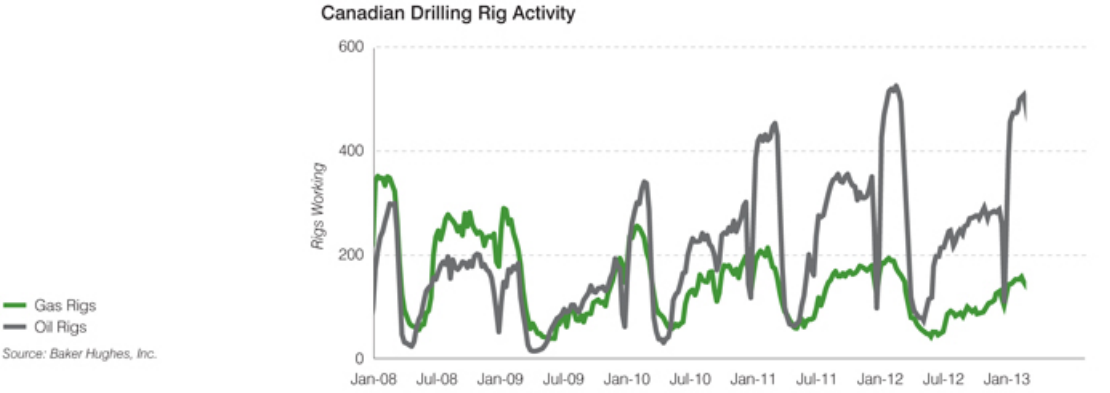




Drilling activity

The graphs below show that since 2010 drilling activity in the United States and Canada has been shifting from natural gas to oil. The Canadian drilling rig activity graph also shows how Canadian drilling activity fluctuates with the seasons, a market dynamic that, in general, is not present in the United States.





A COMPETITIVE OPERATING MODEL

The contract drilling business is highly competitive and there are many industry participants. We compete for drilling contracts that are usually awarded based on competitive bids.

We believe potential customers focus on pricing and rig availability when selecting a drilling contractor, but also consider many other things, including drilling capabilities and condition of rigs, quality of rig crews, breadth of service, safety record and adaptability among others.

Providing High Performance, High Value services to our customers is the core of our competitive strategy. We deliver High Performance by delivering passionate people supported by superior systems and equipment designed to maximize productivity and reduce risks. We create High Value by operating safely, lowering customer risks and costs, developing people, generating financial growth and attracting investment.

Operating efficiency

We keep customer well costs down by maximizing the efficiency of operations in several ways:

- using innovative and advanced drilling technology that is efficient and reduces costs
- having equipment that is geographically dispersed, reliable and well maintained
- monitoring and maintaining our equipment to minimize mechanical downtime
- effectively managing operations to keep non-productive time to a minimum
- compensating our executive and eligible employees based on performance against safety, operational, employee retention and financial measures.

Efficient, cost-reducing technology

We focus 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 Precision Super Single design includes 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. Precision Super Single rigs use 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.

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

Broad geographic footprint

Geographic proximity and fleet versatility make us a comprehensive provider of High Performance, High Value services to our customers. Our large diverse fleet of rigs is strategically deployed across most active regions in North America, including all the major prolific unconventional oil and gas fields. More recently, we have expanded drilling operations into select international markets.

Managing downtime

Reliable and well maintained equipment minimizes downtime and non-productive time during operations. We manage mechanical downtime through preventative maintenance programs, detailed inspection processes, an extensive fleet of strategically placed spare equipment, an in-house supply chain and continuous equipment upgrades.

We minimize non-productive time (move, rig-up and rig-out time) by utilizing walking and skidding systems, decreasing the number of move loads per rig, and using mechanized equipment for safer and quicker rig component connections.

Tracking our results

We unitize key financial information per day and per hour, and compare it to established benchmarks and past performance. We evaluate the relative strength of our financial position by monitoring our working capital, debt ratios and returns on capital employed. We track industry rig utilization statistics to evaluate our performance against competitors. And we link incentive compensation for our senior team to returns generated compared to established benchmarks.

We reward executives and eligible employees through incentive compensation plans for performance against the following measures:

- Safety performance – total recordable incident frequency per 200,000 man-hours. Measured against prior year performance and current year industry performance in Canada and the United States.
- Operational performance – rig down time for repair as measured by time not billed to the customer. Measured against predetermined target of available billable time.
- Key field employee retention – senior field employee retention rates. Measured against predetermined target of retention.
- Financial performance – return on capital employed calculated as a percentage of pre-tax operating earnings divided by total assets less current liabilities. Measured against predetermined target percentage.
- Financial performance – total shareholder return performance against an industry peer group, including dividends, over a three year period. Measured against predetermined selection of competitors in peer group.

Top tier service

We pride ourselves on providing quality equipment operated by experienced and well trained crews. We also strive to align our capabilities with evolving technical requirements associated with more complex well bore programs.

Large, diverse fleet of rigs

Our fleet of drilling rigs can handle every kind of onshore conventional and unconventional oil and natural gas wells in North America.

Our service rigs provide completion, workover, abandonment, well maintenance, high pressure and critical sour gas well work and well re-entry preparation across the Western Canada Sedimentary Basin and the northern U.S. markets. Service rigs are supported by three field locations in Alberta, two in Saskatchewan, one in each of Manitoba, British Columbia, North Dakota, Texas and Pennsylvania.

Snubbing complements traditional natural gas well servicing by allowing customers to work on wells while they are pressurized and production has been suspended. We have two kinds 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.

We are investing in coil tubing units that have the ability to service horizontal wells by pushing the tubing rather than relying on gravity. Coil tubing often works more effectively in unconventional horizontal wells which represent the majority of wells drilled in North America today. We began using our first coil tubing unit in the first quarter of 2012 and finished with five units at the end of 2012.

This year we high-graded our drilling rig fleet by:

- adding 36 Tier 1 new build drilling rigs
- upgrading 11 drilling rigs – about half of these were Tier upgrades
- decommissioning 42 Tier 3 and 10 Tier 2 rigs.

As at December 31, 2012, 92% of our 321 drilling rigs were Tier 1 or Tier 2 rigs.

	Tier 1	Tier 2	PSST
	¡ high performance rigs ¡ newer design and manufacture	¡ high performance rigs ¡ modified and new equipment added to improve performance	¡ conventional ¡ mechanical rigs
Capabilities	Best suited to the more complex resources in North American shale and unconventional plays: ¡ pad development ¡ directional or horizontal drilling ¡ slant drilling ¡ drilling in environmentally sensitive areas	Capable of directional and horizontal drilling	Designed for traditional, vertical drilling ¡ used in seasonal and stratification work in Canada ¡ can be used in our turkey operations in the United States
Key features	¡ advanced AC, silicone controlled rectifier (“SCR”), or mechanical power distribution and controls ¡ mobile in their class (require fewer trucking loads) ¡ highly mechanized tubular handling equipment ¡ integrated top drive or top drive adaptability ¡ electronic or hydraulic control of the majority of operating parameters ¡ specialized drilling tubulars ¡ high-capacity mud pumps	¡ some mechanization of tubular handling equipment ¡ top drive adaptability ¡ SCR or mechanical type power systems ¡ increased hook load and or racking capabilities ¡ upgraded power generating, control systems and other major components ¡ high-capacity mud pumps	¡ no automation ¡ lower pump capacity ¡ provide acceptable performance ¡ some are top drive adaptable

Inventory of ancillary equipment

An inventory of equipment (portable top drives, loaders, boilers, tubulars and well control equipment) supports our fleet of drilling and service rigs. We also maintain an inventory of key rig components to minimize downtime if there is an equipment failure.

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

Systematic maintenance

We consistently reinvest capital to sustain and upgrade existing property, plant and equipment, and benchmark equipment repair and maintenance expenses to activity levels in accordance with our maintenance and certification programs.

We use 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.

We benefit 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 Precision Supply in the United States.

We have a continuous maintenance program for essential elements, like tubulars and engines.

Upgrade opportunities

We leverage our internal manufacturing and repair capabilities and inventory of quality rigs to address market demand through upgraded drilling and service rigs. For drilling rigs, the upgrade may result in a change in tier classification.

People

Having an experienced, high performance crew is a competitive strength and highly valued by our customers. There are often shortages of qualified manpower in peak operating periods. We rely heavily on our safety record, investment in employee development and reputation to attract and retain employees, and focus on initiatives that provide a safe and productive work environment, opportunity for advancement and added wage security. We have centralized personnel, orientation and training programs in Canada and the U.S.; however, in the U.S. these functions are sometimes managed to align with regional labour and customer service requirements. In 2008 we launched Toughnecks, our highly successful North America field recruiting program.

Systems

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

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

Safe operations

Safety, environmental stewardship and employee wellness are critical for us and for our customers, and are the foundation of our culture.

Safety performance is a fundamental contributor to operating performance and the financial results we generate for our shareholders. Target Zero – our safety vision for eliminating workplace incidents – is a fundamental belief that all injuries can be prevented. We track safety using an industry standard recordable frequency statistic that benchmarks successes and isolates areas for improvement. We have 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. In 2012, 269 of our drilling rigs and 186 of our service rigs and snubbing units achieved Target Zero. We continue to embrace technological advancements which make operations safer.

Together with our customers, we are continuously looking for opportunities to reduce our consumption of non-renewable resources and our environmental footprint. We use technology to reduce our impact on the environment, including:

- heat recovery and distribution systems
- power generation and distribution
- fuel management
- fuel type
- noise reduction
- recycling of used materials
- use of recycled materials
- efficient equipment designs
- spill containment.

AN EFFECTIVE STRATEGY

Precision's vision is to be recognized as the High Performance, High Value provider of services for global energy exploration and development.

We work toward that vision by defining and measuring our results against strategic priorities we establish at the beginning of every year.

2012 Strategic Priorities	2012 Results	Plans for 2013
Execute our High Performance, High Value strategy Continue to deliver safe, reliable, predictable and repeatable performance with high environmental responsibility and community standards.	Improved safety performance in both operating segments in 2012, matching the best results in our history.	Continue to drive execution excellence in our people, internal systems and infrastructure supporting our world class safety, training and development programs, upgrading and consolidating our Nisku operations and leveraging our investments in our Houston and Red Deer Tech Centers.
Execute on existing organic growth opportunities including contracting additional new build and upgraded drilling rigs, adding assets and people to the directional drilling and Completion and Production Services businesses and pursuing additional rig deployments internationally. Continue to evaluate accretive acquisitions.	Delivered 36 new build Super Series to customers on long-term contracts and upgraded 11 existing drilling rigs to higher specification assets under long-term contracts. Established footprint in the Middle East and expanded international operations from two rigs to eight operating at the end of the year. Start-up activities took longer than expected. Expanded service lines in Completion and Production Services adding higher end rental offerings and entering the coil tubing business. Expanded penetration into Northern U.S. markets. Over the past two years, we have grown our directional drilling business but financial results and utilization have been weaker than expected.	Remain poised to seize growth opportunities, leveraging our balance sheet strength and flexibility. Deliver new build rigs to the North American market and upgrade existing drilling rigs to higher specification assets on customer contracts. Grow High Performance, High Value service lines for unconventional field development, such as integrated directional drilling, coil tubing and rentals. Continue to expand geographically with international drilling operations and increased Completion and Production presence in the U.S. market.
Build our brand Continue to promote Precision's High Performance, High Value brand with customers, employees, investors and within the communities in which we operate.	Had strong Canadian and U.S. dayrates throughout 2012 and exceeded employee retention goals across all targeted skill positions. Increased recognition from U.S. and international investors while retaining strong support from Canadian base.	Uphold our reputation and market breadth in North America while strengthening our presence in select oilfield markets internationally.

Our corporate and competitive growth strategies are designed to optimize resource allocation and differentiate us from the competition, generating value for investors.

We see opportunities for growth in our Contract Drilling Services land drilling rig fleet both in North America and internationally. Unconventional drilling is the primary opportunity in the North American market place. Unconventional resource development requires advanced Tier 1 drilling rigs and other highly developed services that promote the drilling of reliable, predictable and repeatable horizontal wells.

The completion and production work associated with unconventional wells provides the most profitable growth opportunities for Completion and Production Services.

RISKS TO ACHIEVING OUR STRATEGY

The following is a list of our key business risks. You'll find more information and other risks to our business in our annual information form, which you can find on our website, www.precisiondrilling.com.

Price of oil and gas

We sell our services to oil and natural gas exploration and production companies. Macroeconomic and geopolitical factors associated with oil and natural gas supply and demand are the primary factors driving pricing and profitability in the oilfield services industry. Generally, we experience high demand for our services when commodity prices are relatively high and the opposite is true when commodity prices are low. The volatility of crude oil and natural gas prices accounts for much of the cyclical nature of the energy services business.

The markets for oil and natural gas are separate and distinct. Oil is a global commodity with a vast distribution network, although the differential between benchmarks such as West Texas Intermediate and European Brent crude oil can fluctuate. As in all markets, when supply, demand and other market factors change, so can the spreads between benchmarks. The most economical way to transport natural gas is in its gaseous state by pipeline, and the natural gas market depends on pipeline infrastructure and regional supply and demand. 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.

We try to manage this risk by keeping our cost structure as variable as we can while still being able to maintain the level of service our customers require.

Weather patterns

Seasonal weather patterns in Canada and the northern part of the U.S. affect activity in the oilfield services industry. During the spring months, wet weather and the spring thaw make the ground unstable so municipalities and counties and provincial and state transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment. This reduces activity and highlights the importance of the location of our equipment prior to the imposition of the road bans. The timing and length of road bans depend on weather conditions leading to the spring thaw and during the thawing period. Additionally, certain oil and natural gas producing areas are located in parts of Western Canada that are only accessible during the winter months because the ground surrounding or containing the drilling sites in these areas consists of terrain known as muskeg. The rigs and other necessary equipment cannot cross the terrain to reach the drilling site until the muskeg freezes. Moreover, once the rigs and other equipment have been moved to a drilling site, they may become stranded or are unable to be relocated to another site if the muskeg thaws unexpectedly. Our business results depend partly on how long and severe the winter season lasts.

Competition

Periods of high demand often lead to higher capital expenditures on drilling rigs and other oilfield services equipment. The number of drilling rigs competing for work in markets where we operate has increased as the industry adds new and upgraded rigs. We expect more new or newer rigs to enter markets where we operate. The industry supply of drilling rigs may exceed actual demand because of the relatively long life span of oilfield services equipment and the waiting period between when a decision is made to upgrade or build new equipment and when the equipment is placed into service. Excess supply resulting from industry-wide capital expenditures could lead to lower demand for term drilling contracts and our equipment and services. The additional supply of drilling rigs has intensified price competition in the past and could continue to do so and possibly lead to lower rates in the oilfield services industry generally and lower utilization of existing rigs. If any of these factors materializes, it would have an adverse effect on our revenues, cash flows, earnings and asset valuation.

Technology

Complex drilling programs for the exploration and development of conventional and unconventional oil and natural gas reserves demand high performance drilling rigs. The ability of drilling rig service providers to meet this demand depends on continuous improvement of existing rig technology like drive systems, control systems, automation, mud systems and top drives to improve drilling efficiency. Our ability to deliver equipment and services that meet customer demand is critical to our continued success. We cannot assure that our rig technology will continue to meet demands, especially as rigs age and technology advances, or that our competitors will not develop technological improvements that are more advantageous, timely or cost effective than our own advancements.

We have an experienced internal engineering department that works closely with operations and marketing on equipment design and improvements. We cannot guarantee, however, that our rig technology will continue to meet the needs of our customers, especially as rigs age and technology advances, or that competitors won't develop technological improvements that are more advantageous, timely or cost effective.

Employees and suppliers

Finding and keeping employees

We may not be able to find enough skilled labor to meet our needs, and this could limit growth. We may also have difficulty finding enough skilled and unskilled labor in the future if demand for our services increases. Shortages of qualified personnel have occurred in the past during periods of high demand. The demand for qualified rig personnel generally increases with stronger demand for land drilling services and as new and refurbished rigs are brought into service. Increased demand typically leads to higher wages that may or may not be reflected in any increases in service rates.

We continually monitor crew availability. We also focus on providing a safe and productive work environment, opportunity for advancement and added wage security, to retain and attract quality staff.

Reliance on suppliers

We source certain key rig components, raw materials, equipment and component parts from a variety of suppliers in Canada, the U.S. and overseas. We also outsource some or all construction services for drilling and service rigs, including new build rigs as part of our capital expenditure program. We maintain relationships with key suppliers and contractors and an inventory of key components, materials, equipment and parts. We also place advance orders for components that have long lead times.

To manage this risk, we maintain relationships with several key suppliers and contractors, and an inventory of key components, materials, equipment and parts. We also place advance orders for components that have long lead times.

We may, however, experience cost increases, delays in delivery due to the strong activity or financial hardship of suppliers or contractors, or other unforeseen circumstances relating to third parties. If our current or alternate suppliers are unable to deliver the necessary components, materials, equipment, parts and services we require for our businesses, including the construction of new build drilling rigs, it can delay service to our customers and have a material adverse effect on our revenues, cash flows and earnings.

Health, safety and the environment

Safety

Standards for accident prevention 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. Safety is a key factor that customers consider when selecting an oilfield service company. A decline in our safety performance could result in lower demand for services, and this could have a material adverse effect on our revenues, cash flows and earnings. We are subject to various environmental, health and safety laws, rules, legislation and guidelines which can impose material liability, increase our costs or lead to lower demand for our services.

We manage our safety performance using our Target Zero program, a comprehensive training and assessment program designed to work toward a vision of no workplace incidents resulting in injury.

Laws, regulations and guidelines

Our operations are affected by numerous laws, regulations and guidelines relating to the protection of the environment and health and safety, including those governing the management, transportation and disposal of hazardous substances and other waste materials. These include laws, regulations and guidelines 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 these apply to our operations and authorize the recovery of natural resource damages by the government, injunctive relief, and the imposition of stop, control, remediation and abandonment orders. In addition, our land drilling operations may be conducted in or near ecologically sensitive areas, such as wetlands, which are subject to special protective measures and may expose us to additional operating costs and liabilities for noncompliance with certain laws. Some environmental laws and regulations

may impose strict and, in certain cases joint and several, liability. This means that in some situations we could be exposed to liability as a result of conduct that was lawful at the time it occurred, or conditions caused by prior operators or other third parties, including any liability related to offsite treatment or disposal facility. The costs arising from compliance with these laws, regulations and guidelines may be material.

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

Energy and the environment

The issue of energy and the environment has created intense public debate in Canada and around the world in recent years, and it is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment. Any regulatory changes that impose additional environmental restrictions or requirements on us, or our customers, could increase our operating costs and potentially lead to lower demand for our services and have an adverse effect on us. For example, there is growing concern about the apparent connection between the burning of fossil fuels and climate change. Laws, regulations or treaties concerning climate change or greenhouse gas emissions can have an adverse impact on the demand for oil and natural gas, which could have a material adverse effect on us. Governments in Canada and the U.S. are also reviewing more stringent regulation or restriction of hydraulic fracturing, a technology used by some of our customers that involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production. This could have a negative impact on the exploration of unconventional energy resources, which are only commercially viable with the use of hydraulic fracturing. Laws relating to hydraulic fracturing are in various stages of development at levels of governments in markets where we operate. There is no assurance of the outcome of these developments, their effect on the regulatory landscape and the contract drilling industry, or that additional governmental organizations will not seek to pass legislation on hydraulic fracturing in the future.

Financial

Credit market conditions

The ability to make scheduled debt repayments, refinance debt obligations or access financing depends on our financial condition and operating performance, which may be affected by prevailing economic and competitive conditions and certain financial, business and other factors beyond our control. Volatility in the credit markets can increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect our ability to access those markets or the ability of third parties we wish to do business with. We may be unable to maintain sufficient cash flow from operating activities to allow us to pay the principal, premium, if any, and interest on our debt.

In addition, if there is continued or future volatility or uncertainty in the capital markets, access to financing may be uncertain, and this can have an adverse effect on the industry and our business, including future operating results. Our customers may curtail their drilling programs, which could result in lower demand for drilling rigs, well service rigs, reduced dayrates and a decrease in demand for directional drilling and turnkey jobs, other wellsite services or equipment utilization. In addition, certain customers may be unable to pay suppliers, including us, if they are unable to access the capital markets to fund their business operations.

Access to additional financing

We will need sufficient cash flows in the future to service and repay our debt. Our ability to generate cash in the future is affected to some extent by general economic, financial, competitive and other factors that may be beyond our control. If we need to borrow funds in the future to service our debt, our ability will depend on covenants in the secured facility, 2020 notes, 2019 notes, 2021 notes and other debt agreements we have in the future. We may not be able to access sufficient amounts under the secured facility or from the capital markets in the future to pay our obligations as they mature or to fund

other liquidity requirements. If we are not able to borrow a sufficient amount, or generate enough cash flow from operations to service and repay our debt, we will need to refinance our debt or we will be in default, and we could be forced to reduce or delay investments and capital expenditures or dispose of material assets. We may not be able to refinance or arrange alternative measures on favorable terms or at all. If we are unable to service, repay and/or refinance our debt, it could have a negative impact on our financial condition and results of operations.

We regularly assess our credit policies and capital structure, and have enough liquidity to meet our needs. See page 36 for information about our liquidity.

Foreign exchange

Our U.S. and international operations have revenue, expenses, assets and liabilities denominated in currencies other than the Canadian dollar (mostly in US dollars and currencies that are pegged to the US dollar). That means that changes in currency exchange rates affect our income statement, balance sheet and statement of cash flow.

- *Translation into Canadian dollars* – When preparing our consolidated financial statements, we translate the financial statements for foreign operations that don't have a Canadian dollar functional currency into Canadian dollars. We translate assets and liabilities at exchange rates in effect at the balance sheet date. We translate revenues and expenses using average exchange rates for the month of the transaction. We initially recognize gains or losses from these translation adjustments in other comprehensive income, and reclassify them from equity to net earnings on disposal or partial disposal of the foreign operation. Changes in currency exchange rates could materially increase or decrease our foreign currency-denominated net assets, which would increase or decrease shareholders' equity. Changes in currency exchange rates will affect the amount of revenue and expenses we record for our U.S. and international operations, which will increase or decrease our net earnings. If the Canadian dollar strengthens against the US dollar, the net earnings we record in Canadian dollars for our international operations will be lower.

- *Transaction exposure* – Some of our long-term debt is denominated in US dollars. We have designated our US dollar denominated unsecured senior notes as a hedge against the net asset position of our U.S. operations. We convert the debt at the exchange rate in effect at the balance sheet dates and include the resulting gains or losses in the statement of comprehensive income. If the Canadian dollar strengthens against the US dollar, we will incur a foreign exchange gain from the translation of this debt. Most of our international operations are transacted in US dollars or US dollar-pegged currencies. Transactions for our Canadian operations are mainly in Canadian dollars, but we occasionally buy goods and supplies for our Canadian operations using US dollars. These types of transactions and resulting foreign exchange exposure would not typically have a material impact on our financial results.

Liabilities from prior reorganizations

We have retained all liabilities of our predecessor companies, including liabilities relating to corporate and income tax matters.

International operations

We conduct some of our business outside of Canada and the U.S., like Mexico and the Kingdom of Saudi Arabia. Our growth plans contemplate establishing operations in other foreign countries, including countries where the political and economic systems may be less stable than in Canada or the U.S.

Our international operations are subject to risks normally associated with conducting business in foreign countries, including among others:

- insurrection and geopolitical and other political risks
- fluctuations in foreign currency and exchange controls
- increases in duties, taxes and governmental royalties
- renegotiation of contracts with governmental entities
- changes in laws and policies governing operations of foreign-based companies.

If there is a dispute with our international operations, we may be under the exclusive jurisdiction of foreign courts, or may not be able to subject foreign persons to the jurisdiction of a court in Canada or the U.S.

2012 Results

Adjusted EBITDA and operating earnings are additional GAAP measures. Please see page 5 for more information.

Summarized consolidated statements of earnings

Year ended December 31 *(thousands of $)*	**2012**	2011	2010
Revenue:			
Contract Drilling Services	**1,725,240**	1,632,037	1,186,007
Completion and Product Services	**326,079**	330,225	255,827
Inter-segment elimination	**(10,578)**	(11,235)	(12,181)
	2,040,741	1,951,027	1,429,653
Adjusted EBITDA:			
Contract Drilling Services	**649,281**	665,389	434,167
Completion and Product Services	**93,554**	104,252	66,443
Corporate and other	**(72,043)**	(74,577)	(65,702)
	670,792	695,064	434,908
Depreciation and amortization	**307,525**	251,483	210,103
Loss on asset decommissioning	**192,469**	114,893	–
Operating earnings	**170,798**	328,688	224,805
Impairment of goodwill	**52,539**	–	–
Foreign exchange	**3,753**	(23,674)	(12,712)
Finance charges	**86,829**	111,578	211,327
Earning before income taxes	**27,677**	240,784	26,190
Income taxes	**(24,683)**	47,307	(17,345)
Net earnings	**52,360**	193,477	43,535

Results by geographic segment

Year ended December 31 *(thousands of $)*	**2012**	2011	2010
Revenue			
Canada	**1,053,966**	1,071,526	772,332
United States	**936,113**	866,776	634,885
International	**64,017**	22,994	27,239
Inter-segment elimination	**(13,355)**	(10,269)	(4,803)
	2,040,741	1,951,027	1,429,653
Total assets			
Canada	**2,119,891**	2,252,084	1,720,785
United States	**1,913,810**	2,027,676	1,789,441
International	**266,562**	148,114	54,314
	4,300,263	4,427,874	3,564,540

2012 compared to 2011

Net earnings this year were $52 million or $0.18 per diluted share, compared to $193 million or $0.67 per diluted share in 2011. Revenue this year was $2,041 million, or 5% higher than 2011. Net earnings and net earnings per diluted share include the impact of charges associated with asset decommissioning, and an impairment charge to the goodwill attributable to our Canadian Directional Drilling operations, as previously disclosed.

Adjusted EBITDA this year was $671 million, or 3% lower than 2011. Lower activity levels were partially offset by improved pricing in both operating segments. Activity, as measured by drilling utilization days, dropped 15% in Canada and 9% in the U.S. compared to 2011.

The volatile global environment and lower natural gas prices in much of 2012 reduced utilization for us and for the industry in general.

Average oil and natural gas prices

	2012	2011	2010
Oil			
West Texas Intermediate *(per barrel)*	**US $94.13**	US $95.02	US $79.38
Natural gas			
Canada			
AECO *(per MMBtu)*	**$2.39**	$3.62	$4.00
United States			
Henry Hub *(per MMBtu)*	**US $2.75**	US $3.98	US $4.37

Key statistics

There were 10,753 wells drilled in western Canada this year, or 9% fewer than the 11,832 drilled in 2011. Approximately 38,600 wells were started onshore in the U.S., or approximately 2% more than the approximately 37,800 wells started there in 2011.

Total industry drilling operating days were 14% lower than 2011, at 124,319. Average industry drilling operating days per well was 11.6 compared to 12.2 in 2011. Average depth of a well increased by 2%. The decrease in days per well while average depth increased reflects the use of top tier rigs and greater industry experience with unconventional drilling.

Fleet

We and the land drilling industry are in the process of upgrading the drilling rig fleet by building new rigs and upgrading existing ones. In the fourth quarter of 2012 we decommissioned 42 Tier 3 drilling rigs and 10 Tier 2 rigs from our fleet and recorded an impairment charge of $192 million. In the fourth quarter of 2011, we recorded an impairment charge of $115 million related to the decommissioning of 36 drilling rigs and 13 well servicing rigs. We are exiting the Tier 3 contract drilling business but will retain 26 drilling rigs for seasonal, stratification and turnkey drilling work. These will be categorized as “PSST” rigs. Our focus on the Tier 1 and Tier 2 market is aligned with our corporate strategy, customer relationships and competitive position.

Goodwill

Under IFRS, we are required to assess the carrying value of cash-generating units that contain goodwill every year. We recognized a $53 million goodwill impairment charge this year (the goodwill attributable to our Canadian directional drilling operations), because of the outlook for natural gas pricing, and the fact that natural gas drilling in Canada is down.

Foreign exchange

We recognized a foreign exchange loss of $4 million because the Canadian dollar strengthened in value against the U.S. dollar, and the effect that had on the net U.S. dollar denominated monetary position in our Canadian dollar-based companies.

Finance charges

Finance charges were $87 million, or $25 million lower than 2011. In 2011, we incurred a $27 million charge for the make-whole premium from the refinancing of a previously outstanding debt, and the interest expense associated with Canadian income tax settlements. These were offset by higher interest costs from a higher average long-term debt balance and a non-recurring gain we recognized in 2011.

Income taxes

Income taxes were $72 million lower than 2011 year mainly because operating results were lower and income tax was taxed at lower rates.

2011 compared to 2010

Net earnings in 2011 were $193 million or $0.67 per diluted share, compared to $44 million or $0.15 per diluted share in 2010. Revenue in 2011 was $1,951 million compared to $1,430 million in 2010. Net earnings and net earnings per diluted share include the impact of charges associated with asset decommissioning, as previously disclosed.

Adjusted EBITDA in 2011 was $695 million, or 60% higher than the $435 million in 2010 because of improved pricing and margins, and higher activity levels in both operating segments. Activity, as measured by utilization days, increased 22% in Canada and 17% in the U.S. compared to 2010.

Higher oil and natural gas liquids prices increased utilization in 2011 for us and for the industry in general.

Key statistics

There were 11,832 wells drilled in western Canada in 2011, or 1% less than the 11,936 drilled in 2010. Approximately 37,800 wells were started onshore in the U.S. in 2011, or approximately 13% more than the approximately 33,500 wells started there in 2010.

In Canada, total industry drilling operating days, at 144,646, were 21% higher than 2010. Average industry drilling operating days per well was 12.2 compared to 10.0 in 2010. The increase in days per well reflects the increase in horizontal drilling. Wells drilled horizontally typically have a longer drilling distance and take longer to drill.

Foreign exchange

We recognized a foreign exchange gain of $24 million in 2011 compared to a $13 million gain in 2010. The gain in 2011 resulted from the strengthening of the Canadian dollar against the U.S. dollar, and the effect that had on the net U.S. dollar denominated monetary position in our Canadian dollar-based companies. We designated our U.S. dollar debt as a hedge of our U.S. denominated operations on November 17, 2010 and July 26, 2011.

Finance charges

Finance charges were $112 million in 2011, or $100 million lower than 2010. In 2010, we incurred a $116 million loss on settlement of a debt, and debt amortization costs were higher. These were offset by a $27 million make-whole premium we paid in 2011 from the refinancing of $175 million 10% senior unsecured notes, and the interest expense associated with Canadian income tax settlements.

Income taxes

In 2011 income taxes were $65 million higher than 2010 mainly because earnings before income taxes were higher, and we recorded $11 million in income taxes in 2011 that related to a prior year.

CONTRACT DRILLING SERVICES

Financial results

Adjusted EBITDA and operating earnings are additional GAAP measures. Please see page 5 for more information.

Year ended December 31 *(thousands of $, except where noted)*	**2012**	**% of revenue**	2011	% of revenue	2010	% of revenue
Revenue	**1,725,240**		1,632,037		1,186,007	
Expenses						
Operating	**1,036,553**	**60.1**	931,062	57.0	720,347	60.7
General and administrative	**39,406**	**2.3**	35,586	2.2	31,493	2.7
Adjusted EBITDA	**649,281**	**37.6**	665,389	40.8	434,167	36.6
Depreciation and amortization	**271,993**	**15.8**	219,194	13.4	177,516	15.0
Loss on asset decommissioning	**192,469**	**11.1**	113,366	7.0	–	–
Operating earnings	**184,819**	**10.7**	332,829	20.4	256,651	21.6

2012 compared to 2011

Revenue from Contract Drilling Services was $1,725 million this year, or 6% higher than 2011, mainly because drilling rig revenue per day increased in both Canada and the U.S., and we realized growth in our international and directional drilling operations. These were partially offset by lower utilization days in North America.

Operating expenses were 60% of revenue this year compared to 57% in 2011, mainly because labour related costs and costs associated with international and directional drilling activity were higher. Operating expenses per day were 10% higher in Canada and 12% higher in the U.S. mainly because of higher crew labour related costs. General and administrative expense was higher because of the growth in our international business.

Operating earnings were $185 million this year, or 44% lower than 2011, and 11% of revenue compared to 20% in 2011. Included in 2012 is a loss on asset decommissioning charge of $192 million related to the decommissioning of 52 drilling rigs in the fourth quarter. In the fourth quarter of 2011, we recorded an impairment charge of $113 million related to the decommissioning of 36 drilling rigs.

Capital expenditures in 2012 were $751 million:

- $513 million – to expand the underlying asset base
- $130 million – to upgrade existing equipment
- $108 million – spending on maintenance and infrastructure capital.

Most of the expansion capital was on 38 new build rigs, as part of our rig build program. 36 of these were completed and placed into service by December 31, 2012.

Canadian Drilling

Revenue from Canadian Drilling was lower by $20 million or 3% when compared to 2011. Drilling rig activity, as measured by utilization days, was down 15%.

10,753 wells were drilled in Canada in 2012, or 9% fewer than in 2011. Industry operating days decreased 14% to 124,319. These were the result of lower activity as customer demand for oil and liquids-rich natural gas related drilling activity declined.

Adjusted EBITDA was $332 million, in line with 2011 of $329 million, as a decrease in industry activity was offset by higher pricing.

Depreciation expense for the year was $9 million higher than 2011 because utilization of our Tier 1 rigs was higher, depreciation on our Tier 3 rigs increased and a loss on sale of assets was recognized.

United States Drilling

Revenue from United States Drilling was US$820 million or 1% less than 2011. Drilling rig activity, as measured by utilization days, was down 9%.

Average dayrates in the United States increased 9% this year because we had a higher percentage of drilling rigs working under term contracts, Tier 1 and upgraded rigs were added to the fleet and we experienced increased turnkey activity.

Adjusted EBITDA was US$308 million, or 5% lower than US$325 million in 2011, mainly because industry activity was lower due to depressed natural gas economics.

Depreciation expense for the year was $32 million higher than 2011 because utilization of our Tier 1 rigs was higher, increased depreciation on our Tier 3 rigs and recognition of a loss on sale of assets.

Operating statistics

Year ended December 31	**2012**	**% increase/ (decrease)**	2011	% increase/ (decrease)	2010	% increase/ (decrease)
Number of drilling rigs (year end)	**321**	**(4.7)**	337	(5.1)	355	0.9
Drilling utilization days (operating and moving)						
Canada	**32,352**	**(14.8)**	37,970	21.8	31,176	46.9
United States	**34,597**	**(8.7)**	37,887	16.8	32,450	43.1
International	**2,086**	**197.2**	702	16.6	602	(15.2)
Drilling revenue per utilization day						
Canada *(Cdn$)*	**21,030**	**14.0**	18,442	14.3	16,139	(9.5)
United States *(US$)*	**23,696**	**9.0**	21,744	14.7	18,965	(17.4)
Drilling statistics (Canadian operations only)						
Wells drilled	**3,085**	**(13.5)**	3,566	11.6	3,196	45.4
Average days per well	**9.4**	**(1.1)**	9.5	8.0	8.8	2.3
Metres drilled *(hundreds)*	**5,233**	**(8.5)**	5,717	11.7	5,119	54.4
Average metres per well	**1,696**	**5.8**	1,603	0.0	1,602	6.2

Drilling statistics – Canada

This year we decommissioned 22 rigs and completed 20 new builds, bringing our Canadian 2012 year end net rig count to 186 (down by 2).

The industry drilling rig fleet increased slightly – there were approximately 822 rigs at the end of 2012 compared to 805 at the end of 2011. Our operating day utilization was 40% (six percentage points lower than 2011), compared to industry utilization, which was 42% (seven percentage points lower than 2011).

Our average dayrates in Canada increased by 14% this year because we had a better rig mix and demand for our Tier 1 rigs was strong.

Drilling statistics – US

This year we decommissioned 30 rigs, completed 16 new builds and transferred two rigs to our Mexican fleet, bringing our U.S. 2012 year end net rig count to 127 (down by 16). We averaged 95 rigs working, a 9% decrease over 2011.

Drilling statistics (lower 48 operations only)

	2012		2011	
	Precision	**Industry[1]**	Precision	Industry[1]
Average number of active land rigs for quarters ended:				
March 31	**104**	**1,947**	100	1,695
June 30	**97**	**1,924**	102	1,803
September 30	**90**	**1,855**	106	1,915
December 31	**87**	**1,759**	107	1,972
Year to date average	**95**	**1,871**	104	1,846

[1] Source: Baker Hughes

COMPLETION AND PRODUCTION SERVICES

Financial results

Adjusted EBITDA and operating earnings are additional GAAP measures. Please see page 5 for more information.

Year ended December 31 *(thousands of $, except where noted)*	**2012**	**% of revenue**	2011	% of revenue	2010	% of revenue
Revenue	**326,079**		330,225		255,827	
Expenses						
Operating	**217,326**	**66.7**	211,195	64.0	178,585	69.8
General and administrative	**15,199**	**4.7**	14,778	4.5	10,799	4.2
Adjusted EBITDA	**93,554**	**28.7**	104,252	31.6	66,443	26.0
Depreciation and amortization	**30,758**	**9.4**	25,598	7.8	24,128	9.4
Loss on asset decommissioning	**–**	**–**	1,527	0.5	–	–
Operating earnings	**62,796**	**19.3**	77,127	23.4	42,315	16.5

Revenue from Completion and Production Services was $326 million this year, or 1% lower than 2011, mainly because industry activity was lower as customers reduced their spending on production activity as natural gas prices remained relatively low. Reduced activity was partially offset by improved pricing for our services and expansion of our services into the U.S.

Operating earnings were $62,796 this year, or 19% lower than 2011, and 19% of revenue compared to 23% in 2011, because service rig activity was down, and rental equipment and base camps saw less activity.

Operating expenses were 67% of revenue this year, or three percentage points higher than 2011, mainly because equipment utilization was down, which increased daily or hourly operating costs associated with fixed operating costs and higher crew wages starting in the fourth quarter.

Depreciation expense for the year was $5 million higher than 2011 mainly because of depreciation on equipment purchases in 2011 and 2012.

Capital expenditures were $109 million:

- $83 million – to expand the underlying asset base
- $26 million – spending on maintenance and infrastructure capital.

Revenue from Precision Well Servicing was $220 million, or 1% lower than 2011, because operating activity was down by 9%. This decline in activity was partially offset by a higher revenue rate per hour.

Revenue from Precision Rentals was $53 million, or 7% lower than 2011. Activity was lower because drilling, well servicing and frac-related activity was down. Precision Rentals expanded from three major product lines (surface equipment, wellsite accommodations, and tubular equipment) to include power generation equipment, solids control equipment and WaterDams (containment rings). The expansion increased the overall rental rate compared to 2011.

Revenue from LRG Camp and Catering was $32 million, or 24% lower than 2011 because there were fewer base camp days this year. LRG operated three base camps and 50 drill camps during 2012.

Operating results

Year ended December 31	**2012**	**% increase/ (decrease)**	2011	% increase/ (decrease)	2010	% increase/ (decrease)
Number of drilling rigs (end of year) [1]	**214**	**3.4**	207	(5.9)	220	–
Service rig operating hours[2]	**294,681**	**(7.2)**	317,418	7.9	294,126	33.9
Revenue per operating hour[2]	**744**	**8.1**	688	8.0	637	(3.8)

[1] Now includes snubbing services. Comparative numbers have been restated to reflect this change.
[2] Prior year comparatives have been changed to include U.S. based service rig activity.

This year we added three coil tubing units in Canada and two in the U.S. Equipment was moved from Canada to the U.S. as we continue to build on our footprint.

This year our service rig hours decreased 7% as market activity declines was partially offset by our U.S. expansion.

Service rig rates increased 8% due to crew wage increased pass through to customers and the provision of higher end services.

This year in Completion and Production Services, we moved five service rigs and two snubbing rigs from Canada to the U.S. and added two new build coil tubing rigs and rental equipment to develop our U.S. business.

CORPORATE AND OTHER

Financial results

Adjusted EBITDA is an additional GAAP measure. Please see page 5 for more information.

Year ended December 31 *(thousands of $)*	**2012**	2011	2010
Revenue	**–**	–	–
Expenses			
Operating	**–**	–	–
General and administrative	**72,043**	74,577	65,702
Adjusted EBITDA	**(72,043)**	(74,577)	(65,702)
Depreciation and amortization	**4,774**	6,691	8,459
Operating earnings (loss)	**(76,817)**	(81,268)	(74,161)

We view our corporate segment as support functions that provide assistance to more than one segment. It includes costs incurred in corporate groups in both Canada and the U.S.

Corporate and other expenses were $72 million in 2012, or $3 million less than 2011, mainly related to performance based incentive plans. In 2012 corporate general and administrative costs were 3.5% of consolidated revenue compared to 3.8% in 2011 and 4.6% in 2010.

QUARTERLY FINANCIAL RESULTS

Adjusted EBITDA and funds provided by operations are additional GAAP measures. Please see page 5 for more information.

2012 – quarters ended *(thousands of $, except per share amounts)*	**March 31**	**June 30**	**September 30**	**December 31**
Revenue	**640,066**	**381,966**	**484,761**	**533,948**
Adjusted EBITDA	**245,574**	**97,192**	**151,000**	**177,026**
Net earnings (loss)	**111,081**	**18,261**	**39,357**	**(116,339)**
Per basic share	**0.40**	**0.07**	**0.14**	**(0.42)**
Per diluted share	**0.39**	**0.06**	**0.14**	**(0.42)**
Funds provided by operations	**247,739**	**62,373**	**146,124**	**142,576**
Cash provided by operations	**162,440**	**275,346**	**61,183**	**136,317**
Dividends per share	**–**	**–**	**–**	**0.05**

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

The Canadian drilling industry is affected by weather patterns. Activity peaks in the winter, in the fourth and first quarters. In the spring, wet weather and the spring thaw make the ground unstable. Government road bans restrict the movement of rigs and other heavy equipment, reducing activity in the second quarter. This leads to quarterly fluctuations in operating results and requirements for working capital. Activity in the U.S. does not have the same seasonality.

We had a net loss in the fourth quarter of $116 million or $0.42 per diluted share, compared to net earnings of $28 million in the fourth quarter of 2011. This reflects the impact of charges associated with asset decommissioning and a goodwill impairment which, combined, reduced net earnings by $179 million and net earnings per diluted share by $0.63 compared to the fourth quarter of 2011.

Revenue and Adjusted EBITDA were both lower in the fourth quarter compared to the fourth quarter of 2011: revenue was $534 million compared to $587 million in the fourth quarter of 2011; Adjusted EBITDA was $177 million compared to $230 million in the fourth quarter of 2011. These results were mainly because of lower activity across most business lines and higher operating costs, partially offset by higher pricing.

Our Adjusted EBITDA margin was 33% this quarter, compared to 39% in the fourth quarter of 2011. The decrease in Adjusted EBITDA margin was mainly due to higher average costs and lower equipment utilization in both Canada and the U.S.

Operating costs were higher because of labour related costs and higher operating costs internationally. Our portfolio of term customer contracts, a highly variable operating cost structure and economies achieved through vertical integration of the supply chain all help us manage our Adjusted EBITDA margin.

Drilling rig utilization days (drilling days plus move days) in Canada were 8,242 this quarter, or 23% lower than the fourth quarter of 2011. Drilling rig utilization days in the U.S. were 8,014 this quarter, or 19% lower than the fourth quarter of 2011. This was the result of lower customer demand as customers conserved cash and deferred drilling programs into 2013.

The majority of activity was from oil and liquids-rich natural gas related plays. We averaged a total of 185 rigs working in the quarter (average 90 in Canada, 87 in the U.S. and eight internationally), compared to a total average 182 rigs in the third quarter of 2012 and 225 rigs in the fourth quarter of 2011.

Service rig activity in the fourth quarter was 12% lower than the fourth quarter of 2011 (77,234 operating hours compared to 88,131 hours in the fourth quarter of 2011).

Contract Drilling Services

Revenue and Adjusted EBITDA from Contract Drilling Services were both down in the fourth quarter compared to the fourth quarter of 2011: revenue was $452 million, or 9% lower than the fourth quarter of 2011; Adjusted EBITDA was $172 million, or 21% lower than the fourth quarter of 2011. These results were mainly because of lower drilling rig activity, partially offset by higher average rates per day in Canada and the U.S. and higher revenue from our international contract drilling operations.

Customer demand for oil and liquids-rich natural gas related drilling activity was down in the fourth quarter because oil prices were down. Drilling rig revenue per utilization day in both Canada and the U.S. was up 10% over 2011. The increase in average dayrates for Canada was the result of improved rig mix and solid demand for Tier 1 assets. In the United States the majority of the increase was driven by higher turnkey activity.

In Canada, 41% of utilization days in the fourth quarter were generated from rigs under term contract, compared to 38% in the fourth quarter of 2011. In the U.S., 68% of utilization days were generated from rigs under term contract as compared to 79% in the fourth quarter of 2011. At the end of the quarter, we had 55 drilling rigs working under term contracts in Canada and 54 in the U.S.

Operating costs were 60% of revenue for the quarter, or six percentage points higher than the fourth quarter of 2011 because costs were higher internationally, labour related costs were higher and activity was lower, so fixed costs were spread over a lower revenue base. Operating costs per day in Canada were higher than the fourth quarter of 2011 mainly because crew wage expenses were higher. Operating costs per day in the United States were higher than in the fourth quarter of 2011 mainly because of higher proportionate turnkey activity as well as higher labour related and overall operating costs. Labour rate increases are typically recovered through higher dayrates.

We decommissioned 52 rigs in the fourth quarter (22 in Canada and 30 in the U.S.) and recorded an impairment charge of $192 million. Quarterly depreciation increased 25% over the fourth quarter of 2011. As discussed in our MD&A dated December 31, 2011, we changed our depreciation policy on certain Tier 3 rigs from the unit of production method to straight-line over four years, which increased depreciation by approximately $5 million in the fourth quarter of 2012. Higher utilization of our Tier 1 rigs, losses on asset disposals and depreciation from the growth in directional drilling and international contract drilling have also increased depreciation.

We use the unit of production method of calculating depreciation for our contract drilling operations except for certain PSST equipment and directional drilling equipment, where we use the straight-line method.

Completion and Production Services

Revenue and Adjusted EBITDA from Completion and Production Services were both down compared to the fourth quarter of 2011: revenue was $85 million or 11% lower than the fourth quarter of 2011; Adjusted EBITDA was $22 million or 34% lower than the fourth quarter of 2011. These results are mainly because customers reduced spending in response to greater economic uncertainty, which reduced activity across all service lines.

Well servicing activity in the fourth quarter was 12% lower than the fourth quarter of 2011 (77,234 operating hours and utilization of 39%, compared to 88,131 hours and utilization of 43%). Results were down because of reduced completion and production work on oil wells. Approximately 95% of the fourth quarter service rig activity was oil related. Our rental division activity in the fourth quarter was 38% lower than the fourth quarter of 2011 mainly because completion and frac-related activity was down industry-wide, offset by new equipment added to the fleet.

Average service rig revenue in the fourth quarter was $740, or $9 per operating hour higher than the fourth quarter of 2011 because our coil tubing operations, which operate at higher rates, started in 2012.

Operating costs as a percentage of revenue increased to 70% in the fourth quarter of 2012, from 61% in the fourth quarter of 2011. Operating costs per service rig operating hour were higher than in the fourth quarter of 2011 mainly because fuel costs were higher, and because of the new coil tubing operations.

Depreciation in the fourth quarter of 2012 was 33% higher than the fourth quarter of 2011 because depreciation expense per unit associated with new equipment was higher, and we incurred losses on asset disposals. We use the straight-line method of calculating depreciation for our completion and production lines, except for the well servicing division, where we use the unit of production method.

Consolidated

General and administrative expenses were $30 million in the fourth quarter, or $6 million lower than the fourth quarter of 2011 because of lower costs associated with declines in activity, combined with lower incentive compensation costs tied to the price of our common shares.

Net finance charges were $22 million in the fourth quarter, or $3 million higher than the fourth quarter of 2011 mainly because of a non-recurring items in 2011.

Capital expenditures were $187 million in the fourth quarter, compared to $328 million in the fourth quarter of 2011. Spending in the fourth quarter of 2012 included:

- $123 million – to expand the underlying asset base
- $23 million – to upgrade existing equipment
- $41 million – spending on maintenance and infrastructure capital.

Financial Condition



The oilfield services business is inherently cyclical. To manage this, we focus on maintaining a strong balance sheet so we have the financial flexibility we need to continue to manage our growth and cash flow, no matter where we are in the business cycle.

We apply a disciplined approach to managing and tracking the results of our operations to keep costs down. We maintain a variable cost structure so we can be responsive to changing competition and demand. And we invest in our fleet to make sure we remain competitive.

Term contracts provide more certainty of future revenues and return of capital on our investments.

Liquidity

As at December 31, 2012 our liquidity is supported by a cash balance of $153 million, a senior secured credit facility of US$850 million, operating facilities totaling approximately $55 million and a $25 million secured facility for letters of credit.

At December 31, 2012, we had approximately $1,290 million (2011 – $1,268 million) outstanding under our secured and unsecured credit facilities. Our secured facility includes financial ratio covenants that are tested quarterly. We're compliant with these covenants and expect to remain compliant.

We ended 2012 with a long-term debt to long-term debt plus equity ratio of 0.36 (compared to 0.37 in 2011) and a ratio of long-term debt to cash provided by operations of 1.92 (compared to 2.33 in 2011).

The current blended cash interest cost of our debt is about 6.6%.

Ratios and key financial indicators

We evaluate the relative strength of our financial position by monitoring our working capital, debt ratios and liquidity.

We also monitor returns on capital and link our executives' incentive compensation to the returns we generate, compared to our peers.

Financial position and ratios

(in thousands of $, except ratios)	**December 31, 2012**	December 31, 2011	December 31, 2010
Working capital (includes current portion of long-term debt)	**278,021**	610,429	458,003
Working capital ratio	**1.7**	2.4	3.1
Long-term debt	**1,218,796**	1,239,616	804,494
Total long-term financial liabilities	**1,245,290**	1,267,040	834,813
Total assets	**4,300,263**	4,427,874	3,564,540
Enterprise value (share price x number of shares outstanding + long-term debt – working capital – see page 40)	**3,213,406**	3,528,046	2,993,083
Long-term debt to long-term debt plus equity	**0.36**	0.37	0.29
Long-term debt to cash provided by operations	**1.92**	2.33	2.63
Long-term debt to Adjusted EBITDA	**1.82**	1.78	1.85
Long-term debt to enterprise value	**0.38**	0.35	0.27

Credit rating

Credit ratings affect our ability to obtain short and long-term financing, the cost of this financing, and our ability to engage in certain business activities cost-effectively.

	Moody's	**S&P**
Corporate credit rating	Ba1	BB+
Senior secured bank credit facility rating	Not rated	Not rated
Senior unsecured credit rating	Ba1	BB

CAPITAL MANAGEMENT

To maintain and grow our business, we invest both growth and sustaining capital. We base expansion capital decisions on return on capital employed and payback and mitigate the risk that we may not be able to fully recover our capital by requiring multi-year term contracts for new build rigs.

We base our maintenance capital decisions on actual activity levels, using key financial indicators that we express on a per operating day or per operating hour basis. Sourcing internally (through our manufacturing and supply divisions) helps keep our maintenance capital costs as low as possible.

Foreign exchange risk

Our U.S. and international operations have revenue, expenses, assets and liabilities denominated in currencies other than the Canadian dollar (mostly in US dollars and currencies that are pegged to the US dollar). That means that changes in currency exchange rates affect our income statement, balance sheet and statement of cash flow. We manage this risk by matching the currency of our debt obligations with the currency of cash flows generated by the operations the debt supports.

Interest rate risk

We minimize interest rate risk by staggering long-term debt maturities.

Hedge of investments in U.S. operations

We have designated our U.S. dollar denominated long-term debt as a hedge of our investment in our operations in the U.S. We recognize the effective amount of this hedge (net of tax) in other comprehensive income. We recognize ineffective amounts (if any) in earnings.

SOURCES AND USES OF CASH

At December 31 *(thousands of $)*	**2012**	2011
Cash from operations	**635,286**	532,772
Cash used in investing	**(930,121)**	(715,462)
Surplus (deficit)	**(294,835)**	(182,690)
Cash from (used in) financing	**(14,899)**	366,887
Effect of exchange rate changes on cash	**(4,974)**	26,448
Net cash generated (used)	**(314,708)**	210,645

Cash from operations

In 2012, we generated cash from operations of $635 million (compared to $533 million in 2011).

Investing activity

We made capital investments of $868 million in 2012:

- $596 million in expansion capital expenditures
- $130 million in upgrade capital expenditures
- $142 million in maintenance and infrastructure capital expenditures.

Of the $868 million in capital expenditures in 2012, $751 was for the Contract Drilling segment, $109 million for the Completion and Production segment and $8 million for the Corporate and other segment.

Expansion and upgrade capital includes the cost of long lead items purchased for our capital inventory, like top drives, drill pipe, control systems, engines and other items we can use to complete new build projects or upgrade our rigs in North America and internationally.

Financing activity

With the exception of foreign exchange translation, our net borrowings in 2012 were the same as in 2011 (2011 increased by $407 million over 2010).

Our senior secured facility was increased from US$550 million to US$850 million effective August 30, 2012, and the US$100 million “accordion” feature was increased to US$250 million, allowing the facility to be increased to US$1.1 billion with additional lender commitments. The term was extended to five years and several negative covenants were relaxed.

Our operating facility was increased from $25 million to $40 million effective August 30, 2012, and remains undrawn except for $19 million in outstanding letters of credit. Our operating facility of US$15 million remains undrawn as at December 31, 2012. Effective September 27, 2012, we entered into a new US$25 million demand facility for letters of credit and it remained undrawn as at December 31, 2012.

Debt

At December 31, 2012, we had approximately $925 million in secured and operating credit facilities, and $1,245 million in senior unsecured notes (maturing in 2019, 2020 and 2021).

Amount	Availability	Used for	Maturity
Senior facility (secured)			
US$850 million (extendible, revolving term credit facility with US$250 million accordion feature)	Undrawn, except US$27 million in outstanding letters of credit	General corporate purposes	November 17, 2017
Operating facilities (secured)			
$40 million	Undrawn, except $19 million in outstanding letters of credit	Letters of credit and general corporate purposes	
US$15 million	Undrawn	Short term working capital requirements	
Demand letter of credit facility (secured)			
US$25 million	Undrawn	Letters of credit	
Senior notes (unsecured)			
$200 million	Fully drawn	Debt repayment	March 15, 2019
US$650 million	Fully drawn	Debt repayment and general corporate purposes	November 15, 2020
US$400 million	Fully drawn	Capital expenditures and general corporate purposes	December 15, 2021

Contractual obligations

Our contractual obligations include both financial obligations (long-term debt and interest) and non-financial obligations (new rig build commitments, operating leases and equity-based compensation for key executives and officers).

The table below shows the amounts of these obligations and when payments are due for each.

At December 31, 2012 *(thousands of $)*	Payments due (by period)				
	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
Long-term	–	–	–	1,244,645	1,244,645
Interest on long-term debt	81,710	163,421	163,421	241,273	649,825
Rig construction	68,120	36,443	–	–	104,563
Operating leases	15,561	25,389	16,509	23,161	80,620
Contractual incentive plans[1]	16,260	18,622	–	–	34,882
Contingent purchase consideration	52,915	–	–	–	52,915
Total	234,566	243,875	179,930	1,509,079	2,167,450

[1] Includes amounts we have not yet accrued but are likely to pay at the end of the contract term. Our long-term incentive plans compensate officers and key employees through cash payments when their awards vest. Equity-based compensation amounts are shown based on a share price of $8.22 at December 31, 2012.

CAPITAL STRUCTURE

Shares outstanding

	March 8, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Shares outstanding	276,502,155	276,475,770	276,081,797	275,686,676
Deferred shares outstanding	335,946	335,946	417,495	393,717
Warrants outstanding	15,000,000	15,000,000	15,000,000	15,000,000
Share options outstanding	8,593,251	6,413,777	5,154,123	3,723,123

You can find more information about our capital structure in our annual information form, available online at our corporate website and on SEDAR.

Common shares

Our articles of amalgamation allow us to issue an unlimited number of common shares. As of December 2012, we issue an annual dividend paid to our shareholders quarterly.

Warrants

On April 22, 2009, we issued 15,000,000 purchase warrants under a private placement. Each warrant can be exercised for one common share at a price of $3.22 per common share for five years from the date of issue. No warrants have been exercised as at December 31, 2012.

Preferred shares

We can issue preferred shares in one or more series. The number of preferred shares that may be authorized for issue at any time cannot exceed more than half of the number of issued and outstanding common shares. We don't currently have any preferred shares issued.

Enterprise value

(in thousands of $, except shares outstanding and per share amounts)	**December 31, 2012**	December 31, 2011	December 31, 2010
Shares outstanding	276,475,770	276,081,797	275,686,676
Year-end share price on the TSX	8.22	10.50	9.60
Shares at market	2,272,631	2,898,859	2,646,592
Long-term debt	1,218,796	1,239,616	804,494
Less working capital	(278,021)	(610,429)	(458,003)
Enterprise value	3,213,406	3,528,046	2,993,083



Critical Accounting Estimates

Because of the nature of our business, we are required to make estimates about the future that affect the amount of assets, liabilities, revenues and expenses we report. Estimates are based on our past experience, our best judgment and assumptions we think are reasonable.

You'll find all of our significant accounting policies in Note 3 to the consolidated financial statements. We believe the following are the most difficult, subjective or complex judgments, and are the most critical to how we report our financial position and results of operations:

- allowance for doubtful accounts receivable
- impairment of long-lived assets
- depreciation and amortization
- income taxes.

Allowance for doubtful accounts receivable

We evaluate the creditworthiness of our customers on an ongoing basis and grant credit based on the customer's past payment history, financial condition and expected conditions in the industry. We monitor customer payments regularly and include a provision for doubtful accounts based on industry conditions and the state of specific accounts. If we have concerns about a customer's creditworthiness, we may require cash or a letter of credit or deposit before we provide services, or we may choose not to provide services.

Bad debt losses to date have been within expected limits and generally related to specific customer circumstances, but our customers' ability to fulfill their payment obligations to us may change suddenly and without notice. The cyclical nature of the oil and gas industry, continuing uncertainty in debt and equity markets, and the risk that a customer may not be successful in finding the oil and gas reserves they're looking for can all affect their ability to pay us as expected.

Impairment of long-lived assets

Long-lived assets (property, plant and equipment, intangibles and goodwill) make up the majority of our assets. We review the carrying value of these assets for impairment periodically or whenever events or changes in circumstances suggest that we may not be able to recover the carrying amounts of these assets.

For property, plant and equipment, we estimate the future cash flows we would gain from using these assets based on assumptions about future business conditions and developments in technology. These assumptions may change.

A cash generating unit (CGU) is the smallest identifiable group of assets that generates cash independently of inflows from other assets or groups. We use judgment to aggregate assets into cash generating units and allocate goodwill to them. To test goodwill for impairment, we calculate the recoverable amount of the CGU or groups of CGUs the goodwill has been allocated to. This involves estimating future cash flows and applying an appropriate discount rate.

We assessed the carrying value of our long-lived assets for impairment in 2012 and 2011 and concluded:

- the goodwill associated with Canada directional drilling was impaired
- certain of our drilling rigs were obsolete and would be removed from our operating fleet.

Depreciation and amortization

We depreciate and amortize our property, plant and equipment and intangible assets based on estimates we make about their useful lives and salvage value. We base these estimates on data and information from different sources, including vendors, our own historical experience and industry practice. Our estimates may change based on market conditions, future experience or changes technology.

We assign independent values to costly parts of our drilling rig equipment and depreciate and amortize these parts separately (called *componentization*). We use our judgment to decide which parts of a rig represent a significant cost relative to the entire item, and to assess whether different components have similar consumption patterns and useful lives.

Income taxes

Deferred tax assets and liabilities represent temporary differences between the carrying amounts of our assets and liabilities (as shown in our financial statements) and their tax bases. They reflect our estimates and assumptions about when the differences will be reversed, what the effect on our balance sheet will be and what future tax rates will be applied to the reversals.

We have tax benefits from previous transactions that we expect to be able to use to reduce our income taxes in the future. If our future cash flows and taxable income differ significantly from what we've estimated, or if tax laws in the jurisdictions where we operate change, amounts we've recorded as deferred taxes on our balance sheet could change.

Interpreting complex tax regulations, changes in tax laws, and the amount and timing of future taxable income is challenging and uncertain. If actual results are different from our assumptions (or our assumptions change) we may need to adjust the income and expenses we've recorded related to taxes. We make provisions for the possible consequences of future tax audits using reasonable estimates. We base the amount of these provisions on our past experience with tax audits and differences in interpreting tax regulations in the countries where we operate. See Note 24 to our consolidated financial statements.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports we file with (or submit to) securities regulatory authorities are recorded, processed, summarized and reported within the time periods specified by Canadian and U.S. securities laws. This includes gathering information and communicating it to management (including the President and Chief Executive Officer and the Chief Financial Officer) to allow them to make timely decisions about required disclosure.

We evaluated the effectiveness of our 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) as of December 31, 2012.

Management (including the President and Chief Executive Officer and Chief Financial Officer) supervised and participated in the evaluation and concluded that the design and operation of our disclosure controls and procedures were effective as of that date. However, control systems can only provide reasonable, not absolute, assurance that information will be timely, complete and accurate, and we cannot guarantee that errors and fraud will not occur.

During the fourth quarter of 2012, there were no changes in internal control over financial reporting that materially affected (or are reasonably likely to materially affect) our internal control over financial reporting.

Corporate Governance

At Precision, we believe that a strong culture of corporate governance and ethical behavior in decision-making is fundamental to the way we do business.

We have a strong board made up of directors with a history of achievement, and an effective mix of skills, knowledge and business experience. The directors oversee the conduct of our business, provide oversight and support our future growth. They also monitor regulatory developments in Canada and the U.S. to keep abreast of developments in governance and enhance transparency of our corporate disclosure.

William T. Donovan, B.Sc., MBA

Brian J. Gibson, MBA, CFA, ICD.D (Institute of Corporate Directors)

Robert J. S. Gibson, ICD.D (Institute of Corporate Directors)

Allen R. Hagerman, FCA, B. Comm, MBA, CF (Canadian Institute of Chartered Accountants),
ICD.D (Institute of Corporate Directors)

Stephen J. J. Letwin, B.Sc, MBA, CGA

Kevin O. Meyers, Ph.D. (chemical engineering), B.A.

Patrick M. Murray, B.Sc. (Accounting), MBA

Kevin A. Neveu, B.Sc, P.Eng

Robert L. Phillips, B.Sc. (chemical engineering), LLB

Management's Report to the Shareholders

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

Management has prepared Management's Discussion and Analysis ("MD&A"). The MD&A is based upon Precision Drilling Corporation's (the "Corporation") financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2012 to December 31, 2011 and the years ended December 31, 2011 to December 31, 2010.

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

Under the supervision and with direction from our principal executive officer and principal financial and accounting officer, management conducted an evaluation of the effectiveness of the Corporation's internal control over financial reporting. Management's evaluation of internal control over financial reporting was based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2012. Also management determined that there were no material weaknesses in the Corporation's internal control over financial reporting as of December 31, 2012.

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, 2012, 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, 2012.

The Audit Committee of the Board of Directors, which is comprised of six 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 8, 2013

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

March 8, 2013

Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders and Board of Directors of Precision Drilling Corporation

We have audited the accompanying consolidated financial statements of Precision Drilling Corporation (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2012, 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 8, 2013 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 8, 2013

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, 2012, 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, 2012, 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, 2012 and December 31, 2011, and the related consolidated statements of income, shareholders' equity and cash flow for the years then ended, and our report dated March 8, 2013 expressed an unqualified opinion on those consolidated financial statements.



Chartered Accountants
Calgary, Canada

March 8, 2013

Consolidated Statements of Financial Position

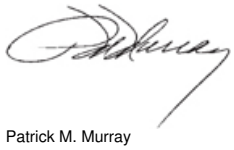
(Stated in thousands of Canadian dollars)		December 31, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash		**$ 152,768**	$ 467,476
Accounts receivable	*(Note 23)*	**509,547**	576,243
Inventory		**13,787**	7,163
Total current assets		**676,102**	1,050,882
Non-current assets:			
Income tax recoverable		**64,579**	64,579
Property, plant and equipment	*(Note 4)*	**3,242,929**	2,942,296
Intangibles	*(Note 5)*	**6,101**	6,471
Goodwill	*(Note 6)*	**310,552**	363,646
Total non-current assets		**3,624,161**	3,376,992
Total assets		**$ 4,300,263**	$ 4,427,874
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	*(Note 23)*	**$ 333,893**	$ 436,667
Income tax payable		**64,188**	3,786
Total current liabilities		**398,081**	440,453
Non-current liabilities:			
Share based compensation	*(Note 8)*	**8,676**	11,303
Provisions and other	*(Note 9)*	**17,818**	16,121
Long-term debt	*(Note 10)*	**1,218,796**	1,239,616
Deferred tax liabilities	*(Note 11)*	**485,592**	587,790
Total non-current liabilities		**1,730,882**	1,854,830
Contingencies and guarantees	*(Note 24)*		
Commitments	*(Note 17)*		
Shareholders' equity:			
Shareholders' capital	*(Note 12)*	**2,251,982**	2,248,217
Contributed surplus		**24,474**	18,396
Deficit		**(44,621)**	(83,160)
Accumulated other comprehensive loss	*(Note 13)*	**(60,535)**	(50,862)
Total shareholders' equity		**2,171,300**	2,132,591
Total liabilities and shareholders' equity		**$ 4,300,263**	$ 4,427,874

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:



Allen R. Hagerman
Director



Patrick M. Murray
Director

Consolidated Statements of Earnings

Years ended December 31,			
(Stated in thousands of Canadian dollars, except per share amounts)		**2012**	2011
Revenue		**$ 2,040,741**	$ 1,951,027
Expenses:			
Operating	*(Note 23)*	**1,243,301**	1,131,022
General and administrative	*(Note 23)*	**126,648**	124,941
Earnings before income taxes, finance charges, foreign exchange, impairment of goodwill, loss on asset decommissioning and depreciation and amortization		**670,792**	695,064
Depreciation and amortization		**307,525**	251,483
Loss on asset decommissioning	*(Note 4)*	**192,469**	114,893
Operating earnings		**170,798**	328,688
Impairment of goodwill		**52,539**	–
Foreign exchange		**3,753**	(23,674)
Finances charges	*(Note 14)*	**86,829**	111,578
Earnings before tax		**27,677**	240,784
Income taxes:	*(Note 11)*		
Current		**70,576**	43,779
Deferred		**(95,259)**	3,528
		(24,683)	47,307
Net earnings		**$ 52,360**	$ 193,477
Earnings per share:	*(Note 18)*		
Basic		**$ 0.19**	$ 0.70
Diluted		**$ 0.18**	$ 0.67

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31,		
(Stated in thousands of Canadian dollars)	**2012**	2011
Net earnings	**$ 52,360**	$ 193,477
Unrealized gain (loss) on translation of assets and liabilities of operations denominated in foreign currency	**(32,878)**	33,050
Foreign exchange gain (loss) on net investment hedge with U.S. denominated debt, net of tax ($nil; 2011 – $2,148 recovery)	**23,205**	(37,692)
Comprehensive income	**$ 42,687**	$ 188,835

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

Years ended December 31, *(Stated in thousands of Canadian dollars)*		**2012**	2011
Cash provided by (used in):			
Operations:			
Net earnings		**$ 52,360**	$ 193,477
Adjustments for:			
Long-term compensation plans		**19,350**	20,555
Depreciation and amortization		**307,525**	251,483
Loss on asset decommissioning		**192,469**	114,893
Impairment of goodwill		**52,539**	–
Foreign exchange		**4,403**	(24,330)
Finance charges		**86,829**	111,578
Income taxes		**(24,683)**	47,307
Other		**1,018**	(2,564)
Income taxes paid		**(10,403)**	(124,682)
Income taxes recovered		**721**	82,883
Interest paid		**(85,251)**	(79,902)
Interest received		**1,935**	1,690
Funds provided by operations		**598,812**	592,388
Changes in non-cash working capital balances	*(Note 23)*	**36,474**	(59,616)
		635,286	532,772
Investments:			
Business acquisitions, net of cash acquired	*(Note 19)*	**(25)**	(92,886)
Purchase of property, plant and equipment	*(Note 4)*	**(868,057)**	(726,357)
Proceeds on sale of property, plant and equipment		**31,423**	15,983
Changes in non-cash working capital balances	*(Note 23)*	**(93,462)**	87,798
		(930,121)	(715,462)
Financing:			
Repayment of long-term debt		**–**	(175,000)
Premium paid on settlement of unsecured senior notes		**–**	(26,688)
Debt issue costs		**(2,855)**	(13,303)
Debt facility amendment costs		**(149)**	(1,134)
Dividends paid		**(13,821)**	–
Increase in long-term debt		**–**	581,520
Issuance of common shares on the exercise of options		**1,926**	2,238
Changes in non-cash working capital balances	*(Note 23)*	**–**	(746)
		(14,899)	366,887
Effect of exchange rate changes on cash and cash equivalents		**(4,974)**	26,448
Increase (decrease) in cash and cash equivalents		**(314,708)**	210,645
Cash and cash equivalents, beginning of year		**467,476**	256,831
Cash and cash equivalents, end of year		**$ 152,768**	$ 467,476

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(Stated in thousands of Canadian dollars)		Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss *(Note 13)*	Deficit	Total equity
Balance at January 1, 2012		$ 2,248,217	$ 18,396	$ (50,862)	$ (83,160)	$ 2,132,591
Net earnings for the period		–	–	–	52,360	52,360
Other comprehensive loss for the period		–	–	(9,673)	–	(9,673)
Dividends		–	–	–	(13,821)	(13,821)
Share options exercised	*(Note 12)*	3,050	(1,124)	–	–	1,926
Issued on redemption of non-management directors DSUs		706	(706)	–	–	–
Issued on waiver of right to dissent by dissenting unitholder		9	(3)	–	–	6
Share based compensation expense	*(Note 8)*	–	7,911	–	–	7,911
Balance at December 31, 2012		**$ 2,251,982**	**$ 24,474**	**$ (60,535)**	**$ (44,621)**	**$ 2,171,300**

(Stated in thousands of Canadian dollars)		Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss *(Note 13)*	Deficit	Total equity
Balance at January 1, 2011		$ 2,244,417	$ 11,266	$ (46,220)	$ (276,637)	$ 1,932,826
Net earnings for the period		–	–	–	193,477	193,477
Other comprehensive loss for the period		–	–	(4,642)	–	(4,642)
Share options exercised	*(Note 12)*	3,416	(1,178)	–	–	2,238
Issued on redemption of non-management directors DSUs		384	(384)	–	–	–
Share based compensation expense	*(Note 8)*	–	8,692	–	–	8,692
Balance at December 31, 2011		**$ 2,248,217**	**$ 18,396**	**$ (50,862)**	**$ (83,160)**	**$ 2,132,591**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

NOTE 1. DESCRIPTION OF BUSINESS

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

NOTE 2. BASIS OF PREPARATION

(a) Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2013.

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

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

Property, plant, and equipment are depreciated as follows:

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

Assets that are depreciated on a unit of production method that have less than 60 utilization days (drilling rig equipment) or 600 service hours (service rig equipment) in a rolling 12 month period are deemed to be idle and are depreciated at a rate of five utilization days or 50 service hours per month until the asset exceeds the utilization threshold. Commencing January 1, 2012 certain drilling rigs are now depreciated on a straight-line basis over their estimated remaining economic life of four years (see note 4).

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

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

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

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

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

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

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

(f) Goodwill

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

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

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

(g) Impairment

(i) Financial assets

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

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

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

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

All impairment losses are recognized in profit or loss.

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

(ii) Non-financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Prior to January 1, 2012, the Corporation had an equity settled deferred share unit plan whereby non-management directors of Precision could elect to receive all or a portion of their compensation in fully-vested deferred share units. Compensation expense was recognized based on the fair value price of the Corporation's shares at the date of grant with a corresponding increase to contributed surplus. Upon redemption of the deferred share units into common shares, the amount previously recognized in contributed surplus is recorded as an increase to shareholders' capital. The Corporation continues to have obligations under this plan.

A share option plan has been established for certain eligible employees. Under this plan the fair value of share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the grant's vesting period with an offsetting credit to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the equity purchase option, the associated amount is reclassified from contributed surplus to shareholders' capital. Consideration paid by employees upon exercise of the equity purchase options is credited to shareholders' capital.

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

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

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

(p) Financial instruments

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

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

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

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

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

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

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

(r) Critical accounting estimates and judgments

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

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

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

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

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

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

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

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

(s) Accounting policies adopted January 1, 2013
The Corporation adopted IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, as well as the consequential amendments to IAS 28 Investments in Associates and Joint Ventures (2011) and IFRS 13 Fair Value Measurement, with a date of initial application of January 1, 2013.

The adoption of these standards on January 1, 2013 will have no impact on the amounts recorded in the Corporation's financial statements.

(i) IFRS 10 Consolidated Financial Statements
IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Corporation controls the investee on the basis of de facto circumstances.

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) IFRS 11 Joint Arrangements
Joint arrangements are arrangements of which the Corporation has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures depending on the Corporation's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Corporation considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Corporation has no joint arrangements under IFRS 11.

(iii) IFRS 12 Disclosures of Interests in Other Entities
IFRS 12 sets out certain disclosures that are required relating to interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Corporation does not have any investments that are not consolidated nor has it entered into any joint arrangements or structured entities.

The Corporation's subsidiaries, as detailed in note 25, are all wholly owned. The determination of whether to consolidate these entities did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

(iv) IFRS 13 Fair Value Measurement
IFRS 13 defines fair value, sets out a single standard a framework for measuring fair value and the required disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

IFRS 13 is applied prospectively to fair value measurements occurring on or after January 1, 2013. The additional disclosure requirements of IFRS 13 are also applied prospectively and will be presented, as relevant, in the 2013 interim and annual financial statements.

(t) Accounting policies not yet adopted

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)
IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

	2012	2011
Cost	$ **4,608,381**	$ 4,129,718
Accumulated depreciation	**(1,365,452)**	(1,187,422)
	$ **3,242,929**	$ 2,942,296
Rig equipment	$ **2,819,491**	$ 2,432,867
Rental equipment	**91,351**	58,589
Other equipment	**78,358**	55,205
Vehicles	**40,759**	10,239
Buildings	**50,585**	28,133
Assets under construction	**133,791**	336,605
Land	**28,594**	20,658
	$ **3,242,929**	$ 2,942,296

Cost

	Rig Equipment	Rental Equipment	Other Equipment	Vehicles	Buildings	Assets under construction	Land	Total
Balance, December 31, 2010	$ 3,138,513	$ 89,894	$ 114,528	$ 26,078	$ 42,867	$ 66,721	$ 18,974	$ 3,497,575
Business acquisitions	23,650	–	377	–	1,271	–	357	25,655
Additions	119,973	11,617	22,486	4,966	3,848	562,196	1,271	726,357
Disposals	(23,054)	(2,110)	(3,948)	(3,287)	–	–	–	(32,399)
Asset decommissioning	(130,167)	–	–	–	–	–	–	(130,167)
Reclassifications	271,770	13,292	9,546	87	39	(294,734)	–	–
Removal of fully depreciated assets	(1,923)	–	(676)	(60)	–	–	–	(2,659)
Effect of foreign currency exchange differences	42,290	14	250	267	57	2,422	56	45,356
Balance, December 31, 2011	3,441,052	112,707	142,563	28,051	48,082	336,605	20,658	4,129,718
Additions	256,661	17,068	18,330	32,994	21,998	512,139	8,867	868,057
Disposals	(26,796)	(920)	(8,311)	(2,267)	(971)	(38,405)	(857)	(78,527)
Asset decommissioning	(262,192)	–	–	–	–	–	–	(262,192)
Reclassifications	619,351	24,530	19,144	4,959	2,295	(670,279)	–	–
Removal of fully depreciated assets	–	–	(71)	–	–	–	–	(71)
Effect of foreign currency exchange differences	(41,333)	(1,034)	(18)	(541)	665	(6,269)	(74)	(48,604)
Balance, December 31, 2012	**$ 3,986,743**	**$ 152,351**	**$ 171,637**	**$ 63,196**	**$ 72,069**	**$ 133,791**	**$ 28,594**	**$ 4,608,381**

Accumulated Depreciation

	Rig Equipment	Rental Equipment	Other Equipment	Vehicles	Buildings	Assets under construction	Land	Total
Balance, December 31, 2010	$ 799,305	$ 49,079	$ 82,466	$ 16,704	$ 17,623	$ –	$ –	$ 965,177
Depreciation expense	231,415	5,542	10,073	3,939	2,285	–	–	253,254
Disposals	(12,580)	(1,812)	(3,764)	(2,943)	–	–	–	(21,099)
Asset decommissioning	(15,273)	–	–	–	–	–	–	(15,273)
Reclassifications	(466)	1,148	(682)	–	–	–	–	–
Removal of fully depreciated assets	(1,923)	–	(676)	(60)	–	–	–	(2,659)
Effect of foreign currency exchange differences	7,707	161	(59)	172	41	–	–	8,022
Balance, December 31, 2011	1,008,185	54,118	87,358	17,812	19,949	–	–	1,187,422
Depreciation expense	274,129	7,901	14,280	6,917	2,341	–	–	305,568
Disposals	(35,697)	(785)	(8,213)	(2,132)	(884)	–	–	(47,711)
Asset decommissioning	(69,723)	–	–	–	–	–	–	(69,723)
Reclassifications	60	(156)	646	16	(566)	–	–	–
Removal of fully depreciated assets	–	–	(71)	–	–	–	–	(71)
Effect of foreign currency exchange differences	(9,702)	(78)	(721)	(176)	644	–	–	(10,033)
Balance, December 31, 2012	**$1,167,252**	**$ 61,000**	**$ 93,279**	**$ 22,437**	**$ 21,484**	**$ –**	**$ –**	**$1,365,452**

In 2012 the Corporation incurred a $192.5 million (2011 – $114.9 million) loss on the decommissioning of certain drilling rigs. The assets were decommissioned due to the inefficient nature of the asset and the high cost to maintain. The charge was allocated $192.5 million (2011 – $113.4 million) to the Contract Drilling Services segment and $nil (2011 – $1.5 million) to the Completion and Production Services segment.

During 2012 the Corporation reviewed the remaining economic lives of certain drilling rigs and determined that due to current market conditions the lives of these rigs should be reduced to four years and depreciation be charged on a straight-line basis to their estimated salvage value. The effect of this change was to increase depreciation expense by $21.3 million in 2012. As these rigs were previously depreciated on a unit of production basis, the impact of the change on future periods cannot be reasonably estimated.

NOTE 5. INTANGIBLES

	2012	2011
Cost	**$ 12,388**	$ 9,925
Accumulated amortization	**(6,287)**	(3,454)
	$ 6,101	$ 6,471
Customer relationships	**$ 1,890**	$ 3,283
Patents and brands	**21**	118
Loan commitment fees related to revolving credit facility	**4,190**	3,070
	$ 6,101	$ 6,471

Cost

	Customer relationships	Patents and brands	Loan commitment fees	Total
Balance, December 31, 2010	$ 4,321	$ 931	$ 4,905	$ 10,157
Business acquisitions	3,425	793	–	4,218
Effect of foreign currency exchange differences	556	15	–	571
Removal of fully amortized assets	(3,702)	(1,319)	–	(5,021)
Balance, December 31, 2011	4,600	420	4,905	9,925
Business acquisitions	–	–	–	–
Additions	–	–	2,855	2,855
Effect of foreign currency exchange differences	(25)	(8)	–	(33)
Removal of fully amortized assets	–	(359)	–	(359)
Balance, December 31, 2012	**$ 4,575**	**$ 53**	**$ 7,760**	**$ 12,388**

Accumulated amortization

	Customer relationships	Patents and brands	Loan commitment fees	Total
Balance, December 31, 2010	$ 2,697	$ 892	$ 202	$ 3,791
Amortization expense	1,798	722	1,633	4,153
Effect of foreign currency exchange differences	524	7	–	531
Removal of fully amortized assets	(3,702)	(1,319)	–	(5,021)
Balance, December 31, 2011	1,317	302	1,835	3,454
Amortization expense	1,376	96	1,735	3,207
Effect of foreign currency exchange differences	(8)	(7)	–	(15)
Removal of fully amortized assets	–	(359)	–	(359)
Balance, December 31, 2012	**$ 2,685**	**$ 32**	**$ 3,570**	**$ 6,287**

NOTE 6. GOODWILL

Balance, December 31, 2010	$	284,532
Business acquisitions		78,034
Exchange adjustment		1,080
Balance, December 31, 2011		363,646
Business acquisitions		25
Impairment charge		(52,539)
Exchange adjustment		(580)
Balance, December 31, 2012	**$**	**310,552**

During 2012 the Corporation determined that the carrying value of the goodwill allocated to the Canadian directional drilling CGU exceeded its recoverable amount and recognized an impairment loss of $52.5 million. The recoverable amount was based on its value in use determined by discounting expected future cash flows to be generated from the continuing use of the assets within the CGU.

Key assumptions used in the calculation of value in use included a discount rate of 15%, terminal value growth rate of nil % and average projected annual cash flow growth over the next four years of 40%. No terminal value growth rate was used due to the finite lives of the underlying assets of the CGU. Projected cash flow was based on future expected outcomes taking into account past experience and management expectation of future market conditions. A 10% change in the key assumptions would not change the amount of the impairment loss recognized.

NOTE 7. BANK INDEBTEDNESS

At December 31, 2012, Precision had available $40.0 million (2011 – $25.0 million) and US$15.0 million (2011 – US$15.0 million) under secured operating facilities, and a secured US$25.0 million (2011 – $nil) facility for the issuance of letters of credit and performance and bid bonds to support international operations. As at December 31, 2012 no amounts had been drawn on any of the facilities. Availability of the $40.0 million facility was reduced by outstanding letters of credit in the amount of $18.9 million (2011 – $0.5 million). The facilities are primarily secured by charges on substantially all present and future property of Precision and its material subsidiaries. Advances under the $40.0 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 and US$25.0 million facilities at the bank's prime lending rate.

NOTE 8. SHARE BASED COMPENSATION PLANS

Liability classified plans

	Deferred Share Units	Long-Term Incentive Plan	Restricted Share Units	Performance Share Units	Share Appreciation Rights	Non-Management Director's DSU	Total
Balance, December 31, 2010	$ 1,638	$ 3,721	$ 8,463	$ 8,655	$ 2,176	$ –	$ 24,653
Expensed (recovered) during the period	313	(23)	9,538	16,668	(403)	–	26,093
Payments	(1,189)	(3,698)	(5,472)	(73)	(80)	–	(10,512)
Balance, December 31, 2011	762	–	12,529	25,250	1,693	–	40,234
Expensed (recovered) during the period	(44)	–	5,094	6,022	(1,195)	816	10,693
Payments	(718)	–	(7,938)	(17,494)	(1)	–	(26,151)
Balance, December 31, 2012	**$ –**	**$ –**	**$ 9,685**	**$ 13,778**	**$ 497**	**$ 816**	**$ 24,776**
Current	$ –	$ –	$ 6,324	$ 9,279	$ 497	$ –	$ 16,100
Long-term	–	–	3,361	4,499	–	816	8,676
	$ –	$ –	$ 9,685	$ 13,778	$ 497	$ 816	$ 24,776

(a) Restricted Share Units and Performance Share Units

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

	RSUs Outstanding	PSUs Outstanding
Outstanding at December 31, 2010	1,287,176	1,719,965
Granted	1,208,224	589,370
Redeemed	(528,578)	(13,128)
Forfeitures	(129,992)	(166,699)
Outstanding at December 31, 2011	1,836,830	2,129,508
Granted	1,117,850	802,000
Issued as a result of cash dividends	11,566	11,972
Redeemed	(864,857)	(851,499)
Forfeitures	(221,139)	(143,029)
Outstanding at December 31, 2012	**1,880,250**	**1,948,952**

Prior to the implementation of the RSU and PSU incentive plans mentioned above, Precision had a Performance Savings Plan. Certain liabilities under this plan continued 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 were redeemable in cash and were required to 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, 2010	167,442
Redeemed on employee resignations and withdrawals	(95,872)
Balance, December 31, 2011	71,570
Redeemed on employee resignations and withdrawals	(71,570)
Balance, December 31, 2012	**–**

(b) Share Appreciation Rights

The Corporation has a U.S. dollar denominated Share Appreciation Rights ("SAR") plan under which eligible participants were granted SAR's that entitle the rights holder to receive cash payments calculated as the excess of the market price over the exercise price per share on the exercise date. The SAR's vest over a period of 5 years and expire 10 years from the date of grant. At December 31, 2012, the intrinsic value of these awards was $nil (2011 – $61 thousand).

Share Appreciation Rights	Outstanding	Range of Exercise Price (US $)	Weighted Average Exercise Price (US $)	Exercisable
Outstanding at December 31, 2010	745,615	$ 9.26 – 17.92	$ 14.79	707,327
Exercised	(25,163)	9.26 – 15.79	12.83	
Forfeited	(14,764)	15.22 – 17.38	16.27	
Outstanding at December 31, 2011	705,688	9.26 – 17.92	14.83	705,688
Exercised	(721)	9.26 – 9.59	9.45	
Forfeited	(26,725)	15.22 – 17.92	15.55	
Outstanding at December 31, 2012	**678,242**	**$ 9.26 – 17.38**	**$ 14.81**	**678,242**

	Total SAR's Outstanding and Exercisable		
Range of Exercise Prices (US $):	Number	Weighted Average Exercise Price (US $)	Weighted Average Remaining Contractual Life (Years)
$ 9.26 – 11.99	59,903	$ 9.26	1.23
12.00 – 14.99	115,478	13.26	2.10
15.00 – 17.38	502,861	15.82	4.43
$ 9.26 – 17.38	678,242	$ 14.81	3.75

(c) Non-management directors
Effective January 1, 2012 Precision instituted a new deferred share unit plan for non-management directors whereby fully vested deferred share units are granted quarterly based upon an election by the non-management director to receive all or a portion of their compensation in deferred share units. These deferred share units are redeemable in cash or an equal number of common shares upon the director's retirement. The redemption of deferred share units in cash or common shares is solely at Precision's discretion. Non-management directors can receive a lump sum payment or two separate payments anytime up until December 15 of the year following retirement. If the non-management director does not specify a redemption date, the deferred share units will be redeemed on a single date six months after retirement. The cash settlement amount is based upon the weighted average trading price for Precision's shares on the Toronto Stock Exchange for the five days immediately prior to payout. A summary of the DSUs outstanding under this share based incentive plan is presented below:

Deferred Share Units	Outstanding
Balance, January 1, 2012	–
Granted	101,535
Issued as a result of cash dividends	429
Balance, December 31, 2012	**101,964**

Equity settled plans

(d) Non-management directors
Prior to January 1, 2012, Precision had a deferred share unit plan for non-management directors. Under the plan fully vested deferred share units were granted quarterly based upon an election by the non-management director to receive all or a portion of their compensation in deferred share units. These deferred share units are redeemable into an equal number of common shares any time after the director's retirement. A summary of this share based incentive plan is presented below:

Deferred Share Units	Outstanding
Balance, December 31, 2010	393,717
Granted	70,974
Redeemed	(47,196)
Balance, December 31, 2011	417,495
Issued as a result of cash dividends	1,630
Redeemed	(83,179)
Balance, December 31, 2012	**335,946**

For the year ended December 31, 2012 no amounts were expensed under this plan. For the year ended December 31, 2011 the Corporation, expensed $0.8 million as share based compensation with a corresponding increase in contributed surplus.

(e) 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 7,094,988 options net of forfeiture have been granted. Under this plan, the exercise price of each option equals the fair market of the option at the date of grant determined by the weighted average trading price for the five days preceding the grant. The options are denominated in either Canadian or U.S. dollars and vest over a period of three years from the date of grant as employees render continuous service to the Corporation and have a term of seven years.

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

Canadian share options	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Outstanding as at December 31, 2010	2,341,769	$ 5.22 – 8.59	$ 7.24	386,013
Granted	1,241,050	10.44 – 14.50	10.66	
Exercised	(141,240)	5.85 – 8.59	6.81	
Forfeitures	(174,008)	5.85 – 14.50	9.17	
Outstanding as at December 31, 2011	3,267,571	5.22 – 14.50	8.45	1,008,305
Granted	1,117,050	7.15 – 10.67	10.60	
Exercised	(237,545)	5.85 – 10.44	6.01	
Forfeitures	(133,279)	5.85 – 14.50	10.27	
Outstanding as at December 31, 2012	**4,013,797**	**$ 5.22 – 14.50**	**$ 9.13**	**1,846,603**

U.S. share options	Options Outstanding	Range of Exercise Price (US $)	Weighted Average Exercise Price (US $)	Options Exercisable
Outstanding as at December 31, 2010	1,381,354	$ 4.95 – 8.06	$ 6.77	158,177
Granted	872,319	10.55 – 15.21	10.95	
Exercised	(206,685)	4.95 – 8.06	6.35	
Forfeitures	(160,436)	4.95 – 10.55	8.36	
Outstanding as at December 31, 2011	1,886,552	4.95 – 15.21	8.61	396,188
Granted	867,000	7.14 – 10.74	10.58	
Exercised	(72,409)	4.95 – 10.55	6.94	
Forfeitures	(281,163)	4.95 – 15.21	9.84	
Outstanding as at December 31, 2012	**2,399,980**	**$ 4.95 – 15.21**	**$ 9.23**	**935,035**

The weighted average share price at the date of exercise for share options exercised in 2012 was $9.42 (2011 – $13.70) for the Canadian share options and US$10.10 (2011 – US$14.37) for the U.S. share options.

The range of exercise prices for options outstanding at December 31, 2012 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	789,228	$ 5.85	3.35	789,228	$ 5.85
7.00 – 8.99	1,071,952	8.54	4.17	693,375	8.57
9.00 – 14.50	2,152,617	10.63	5.61	364,000	10.61
$ 5.22 – 14.50	4,013,797	$ 9.13	4.78	1,846,603	$ 7.81

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	323,692	$ 4.95	3.35	323,692	$ 4.95
6.00 – 8.99	659,252	7.83	4.35	386,445	7.86
9.00 – 15.21	1,417,036	10.86	5.64	224,898	11.02
$ 4.95 – 15.21	2,399,980	$ 9.23	4.98	935,035	$ 7.61

The per option weighted average fair value of the share options granted during 2012 was $4.79 (2011 – $4.94) estimated on the grant date using the Black-Scholes option pricing model with the following assumption: average risk-free interest rate 1% (2011 – 2%), average expected life of four years (2011 – four years), expected forfeiture rate of 5% (2011 – 5%) and expected volatility of 59% (2011 – 59%). Included in net earnings for the year ended December 31, 2012 is an expense of $7.9 million (2011 – $7.9 million).

NOTE 9. PROVISIONS AND OTHER

	Workers' compensation
Balance December 31, 2010	$ 23,741
Expensed during the year	7,894
Payment of deductibles and uninsured claims	(8,179)
Effects of foreign currency exchange differences	528
Balance December 31, 2011	23,984
Expensed during the year	11,604
Payment of deductibles and uninsured claims	(8,436)
Effects of foreign currency exchange differences	(551)
Balance December 31, 2012	**$ 26,601**

	December 31, 2012	December 31, 2011
Current	**$ 8,783**	$ 7,863
Long-term	**17,818**	16,121
	$ 26,601	$ 23,984

Precision maintains a provision for the deductible and uninsured portions of workers' compensation and general liability claims. The amount accrued for the provision for losses incurred varies depending on the number and nature of the claims outstanding at the balance sheet dates. In addition, the accrual includes management's estimate of the future cost to settle each claim such as future changes in the severity of the claim and increases in medical costs. Precision uses third parties to assist in developing the estimate of the ultimate costs to settle each claim, which is based upon historical experience associated with the type of each claim and specific information related to each claim. The specific circumstances of each claim may change over time prior to settlement and as a result, the estimates made as of the balance sheet dates may change.

NOTE 10. LONG-TERM DEBT

	2012	2011
Secured revolving credit facility	$ –	$ –
Unsecured senior notes:		
6.625% senior notes due 2020 (US$650.0 million)	**646,685**	661,050
6.5% senior notes due 2021 (US$400.0 million)	**397,960**	406,800
6.5% senior notes due 2019	**200,000**	200,000
	1,244,645	1,267,850
Less net unamortized debt issue costs	**(25,849)**	(28,234)
	$ **1,218,796**	$ 1,239,616

(a) Secured revolving credit facility
The secured revolving credit facility provides Precision with senior secured financing for general corporate purposes, including for acquisitions, of up to US$850 million with a provision for an increase in the facility of up to an additional US$250 million. The secured revolving credit facility is secured by charges on substantially all of Precision's present and future assets and the present and future assets of its material U.S. and Canadian subsidiaries and, if necessary, in order to adhere to covenants under the revolving credit facility, on certain assets of certain subsidiaries organized in a jurisdiction outside of Canada or the U.S. The secured revolving credit facility requires that Precision comply with certain financial covenants including leverage ratios of consolidated senior debt to earnings before interest, taxes, depreciation and amortization as defined in the agreement ("EBITDA") of less than 3:1 and consolidated total debt to EBITDA of less than 4:1 for the most recent four consecutive fiscal quarters; and a interest coverage ratio of greater than 2.75:1 for the most recent four consecutive fiscal quarters. As well the revolving credit facility contains certain covenants that place restrictions on Precision's ability to incur or assume additional indebtedness; dispose of assets; make or pay dividends, share redemptions or other distributions; change its primary business; incur liens on assets; engage in transactions with affiliates; enter into mergers, consolidations or amalgamations; and enter into speculative swap agreements. At December 31, 2012 Precision complied with the covenants of the revolving credit facility.

The revolving credit facility has a term of five years, with an annual option on Precision's part to request that the lenders extend, at their discretion, the facility to a new maturity date not to exceed five years from the date of the extension request. The current maturity date of the revolving credit facility is November 17, 2017.

Under the revolving credit facility amounts can be drawn in U.S. dollars and/or Canadian dollars and was undrawn as at December 31, 2012 and 2011. 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, 2012 outstanding letters of credit amounted to US$26.8 million (2011 – US$22.6 million).

The interest rate on loans that are denominated in U.S. dollars is, at the option of Precision, either a margin over a U.S. base rate or a margin over LIBOR. The interest rate on loans denominated in Canadian dollars is, at the option of Precision, either a margin over the Canadian prime rate or a margin over the bankers' acceptance rate; such margins will be based on the then applicable ratio of consolidated total debt to EBITDA.

(b) Unsecured senior notes
Precision has outstanding the following unsecured senior notes:

- US$650.0 million of 6.625% Senior Notes due 2020. These notes bear interest at a fixed rate of 6.625% per annum, and mature on November 15, 2020. Interest is payable semi-annually on May 15 and November 15 of each year, commencing on May 15, 2011.
- $200.0 million of 6.5% Senior Notes due 2019. These notes bear interest at a fixed rate of 6.5% per annum, and mature on March 15, 2019. Interest is payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2011.
- US$400.0 million of 6.5% Senior Notes due 2021. These notes bear interest at a fixed rate of 6.5% per annum, and mature on December 15, 2021. Interest is payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2011.

The 6.625% Senior Notes due 2020 and the 6.5% Senior Notes due 2019 are unsecured, ranking equally with existing and future senior unsecured indebtedness, and have been guaranteed by current and future U.S. and Canadian subsidiaries that guaranteed the revolving credit facility. These notes contain certain covenants that limit Precision's ability and the ability of certain subsidiaries to, incur additional indebtedness and issue preferred stock; create liens; make restricted payments; create or permit to exist restrictions on the ability of Precision or certain subsidiaries to make certain payments and distributions; engage in amalgamations, mergers or consolidations; make certain dispositions and transfers of assets; and engage in transactions with affiliates. If the notes receive an investment grade rating by Standard & Poor's and Moody's Investors Service and Precision and its subsidiaries are not in default under the indenture governing the notes, then Precision will not be required to comply with particular covenants contained in the indenture.

The 6.5% Senior Notes due 2021 are unsecured, ranking equally with existing and future senior unsecured indebtedness, and have been guaranteed by current and future U.S. and Canadian subsidiaries that guaranteed the revolving credit facility. These notes contain certain covenants that limit Precision's ability and the ability of certain subsidiaries to, incur additional indebtedness and issue preferred stock; create liens; make restricted payments; create or permit to exist restrictions on the ability of Precision or certain subsidiaries to make certain payments and distributions; engage in amalgamations, mergers or consolidations; make certain dispositions and transfers of assets; and engage in transactions with affiliates. If the notes receive an investment grade rating by Standard & Poor's or Moody's Investors Service and Precision and its subsidiaries are not in default under the indenture governing the notes, then Precision will not be required to comply with particular covenants contained in the indenture.

Precision may redeem, prior to November 15, 2013, up to 35% of the 6.625% Senior Notes due 2020 with the net proceeds of certain equity offerings. 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.

Precision may redeem, prior to March 15, 2014, up to 35% of the 6.5% Senior Notes due 2019 with the net proceeds of certain equity offerings at a redemption price equal to 106.5% of the principal amount plus accrued interest. Prior to March 15, 2015, Precision may redeem the notes in whole or in part at 100.0% of their principal amount, plus accrued interest and the greater of 1.0% of the principal amount of the note to be redeemed and the excess, if any, of the present value of the March 15, 2015 redemption price plus required interest payments through March 15, 2015 (calculated using the Government of Canada rate plus 100 basis points) over the principal amount of the note. As well, Precision may redeem the notes in whole or in part at any time on or after March 15, 2015 and before March 15, 2017, at redemption prices ranging between 103.250% and 101.6254% of their principal amount plus accrued interest. Anytime on or after March 15, 2017 the notes can be redeemed for their principal amount plus accrued interest. Upon specified change of control events, each holder of a note will have the right to sell to Precision all or a portion of its notes at a purchase price in cash equal to 101% of the principal amount, plus accrued interest to the date of purchase.

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

At December 31, 2012 no mandatory principal repayments are required in the next five years.

(c) Guarantor disclosures

The following presents supplemental condensed consolidating financial information for the parent company, guarantor subsidiaries and the non-guarantor subsidiaries, respectively.

Condensed consolidating statement of financial position as at December 31, 2012

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Assets					
Cash	$ 114,709	$ 15,709	$ 22,350	$ –	$ 152,768
Other current assets	9,238	465,695	48,398	3	523,334
Intercompany receivables	394,112	2,082,616	65,279	(2,542,007)	–
Investments in subsidiaries	5,412,168	3,099	–	(5,415,267)	–
Income tax recoverable	9,441	–	55,138	–	64,579
Property, plant and equipment	57,939	3,043,239	142,104	(353)	3,242,929
Intangibles	4,190	1,911	–	–	6,101
Goodwill	–	310,552	–	–	310,552
Total assets	$ 6,001,797	$ 5,922,821	$ 333,269	$ (7,957,624)	$ 4,300,263
Liabilities and Shareholders' Equity					
Current liabilities	$ 103,383	$ 264,788	$ 29,910	$ –	$ 398,081
Intercompany payables and debt	2,200,650	185,855	155,502	(2,542,007)	–
Long-term debt	1,218,796	–	–	–	1,218,796
Other long-term liabilities	245,377	273,547	(6,838)	–	512,086
Total liabilities	3,768,206	724,190	178,574	(2,542,007)	2,128,963
Shareholders' equity	2,233,591	5,198,631	154,695	(5,415,617)	2,171,300
Total liabilities and shareholders' equity	$ 6,001,797	$ 5,922,821	$ 333,269	$ (7,957,624)	$ 4,300,263

Condensed consolidating statement of financial position as at December 31, 2011

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Assets					
Cash	$ 440,760	$ 5,815	$ 20,901	$ –	$ 467,476
Other current assets	7,974	557,142	19,171	(881)	583,406
Intercompany receivables	341,327	1,972,678	66,354	(2,380,359)	–
Investments in subsidiaries	4,961,327	68	–	(4,961,395)	–
Income tax recoverable	9,441	–	55,138	–	64,579
Property, plant and equipment	54,263	2,850,502	45,335	(7,804)	2,942,296
Intangibles	3,070	3,401	–	–	6,471
Goodwill	–	363,646	–	–	363,646
Total assets	$ 5,818,162	$ 5,753,252	$ 206,899	$ (7,350,439)	$ 4,427,874
Liabilities and Shareholders' Equity					
Current liabilities	$ 56,049	$ 376,328	$ 8,960	$ (884)	$ 440,453
Intercompany payables and debt	2,082,700	176,221	121,438	(2,380,359)	–
Long-term debt	1,239,616	–	–	–	1,239,616
Other long-term liabilities	285,289	330,352	(427)	–	615,214
Total liabilities	3,663,654	882,901	129,971	(2,381,243)	2,295,283
Shareholders' equity	2,154,508	4,870,351	76,928	(4,969,196)	2,132,591
Total liabilities and shareholders' equity	$ 5,818,162	$ 5,753,252	$ 206,899	$ (7,350,439)	$ 4,427,874

Condensed consolidating statement of earnings for the year ended December 31, 2012

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Revenue	$ 151	$ 1,986,590	$ 64,779	$ (10,779)	$ 2,040,741
Operating expense	82	1,173,157	80,841	(10,779)	1,243,301
General and administrative expense	27,246	94,014	5,388	–	126,648
Earnings (loss) before income taxes, finance charges, foreign exchange, impairment of goodwill, loss on asset decommissioning and depreciation and amortization	(27,177)	719,419	(21,450)	–	670,792
Depreciation and amortization	3,405	303,693	7,922	(7,495)	307,525
Loss on asset decommissioning	–	192,469	–	–	192,469
Operating earnings (loss)	(30,582)	223,257	(29,372)	7,495	170,798
Impairment of goodwill	–	52,539	–	–	52,539
Foreign exchange	4,252	(189)	(310)	–	3,753
Finance charges	86,780	48	1	–	86,829
Equity in earnings of subsidiaries	(196,489)	–	–	196,489	–
Earnings (loss) before tax	74,875	170,859	(29,063)	(188,994)	27,677
Income taxes	30,011	(49,342)	(5,352)	–	(24,683)
Net earnings (loss)	$ 44,864	$ 220,201	$ (23,711)	$ (188,994)	$ 52,360

Condensed consolidating statement of earnings for the year ended December 31, 2011

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Revenue	$ 200	$ 1,930,451	$ 28,131	$ (7,755)	$ 1,951,027
Operating expense	316	1,110,428	27,984	(7,706)	1,131,022
General and administrative expense	30,596	88,914	5,480	(49)	124,941
Earnings (loss) before income taxes, finance charges, foreign exchange, impairment of goodwill, loss on asset decommissioning and depreciation and amortization	(30,712)	731,109	(5,333)	–	695,064
Depreciation and amortization	5,246	241,200	(1,031)	6,068	251,483
Loss on asset decommissioning	–	114,893	–	–	114,893
Operating earnings (loss)	(35,958)	375,016	(4,302)	(6,068)	328,688
Foreign exchange	(23,628)	(26)	(20)	–	(23,674)
Finance charges	111,518	64	(4)	–	111,578
Equity in earnings of subsidiaries	(402,481)	–	–	402,481	–
Earnings (loss) before tax	278,633	374,978	(4,278)	(408,549)	240,784
Income taxes	79,089	(32,193)	411	–	47,307
Net earnings (loss)	$ 199,544	$ 407,171	$ (4,689)	$ (408,549)	$ 193,477

Condensed consolidating statement of comprehensive income for the year ended December 31, 2012

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Net earnings	$ 44,864	$ 220,201	$ (23,711)	$ (188,994)	$ 52,360
Other comprehensive income (loss)	23,205	(30,899)	(1,934)	(45)	(9,673)
Comprehensive income (loss)	$ 68,069	$ 189,302	$ (25,645)	$ (189,039)	$ 42,687

Condensed consolidating statement of comprehensive income for the year ended December 31, 2011

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Net earnings	$ 199,544	$ 407,171	$ (4,689)	$ (408,549)	$ 193,477
Other comprehensive income (loss)	(37,692)	34,006	(987)	31	(4,642)
Comprehensive income (loss)	$ 161,852	$ 441,177	$ (5,676)	$ (408,518)	$ 188,835

Condensed consolidating statement of cash flow for the year ended December 31, 2012

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Cash provided by (used in):					
Operations	$ (135,797)	$ 775,145	$ (65,654)	$ 61,592	$ 635,286
Investments	(171,158)	(806,436)	(43,971)	91,444	(930,121)
Financing	(14,899)	41,996	111,040	(153,036)	(14,899)
Effects of exchange rate changes on cash and cash equivalents	(4,197)	(811)	34	–	(4,974)
Increase (decrease) in cash and cash equivalents	(326,051)	9,894	1,449	–	(314,708)
Cash and cash equivalents, beginning of year	440,760	5,815	20,901	–	467,476
Cash and cash equivalents, end of year	$ 114,709	$ 15,709	$ 22,350	$ –	$ 152,768

Condensed consolidating statement of cash flow for the year ended December 31, 2011

	Parent	Guarantor subsidiaries	Non-Guarantor subsidiaries	Consolidating adjustments	Total
Cash provided by (used in):					
Operations	$ (52,058)	$ 586,869	$ (38,829)	$ 36,790	$ 532,772
Investments	(126,861)	(598,680)	(8,281)	18,360	(715,462)
Financing	366,887	(5,006)	60,156	(55,150)	366,887
Effects of exchange rate changes on cash and cash equivalents	23,586	2,651	211	–	26,448
Increase (decrease) in cash and cash equivalents	211,554	(14,166)	13,257	–	210,645
Cash and cash equivalents, beginning of year	229,206	19,981	7,644	–	256,831
Cash and cash equivalents, end of year	$ 440,760	$ 5,815	$ 20,901	$ –	$ 467,476

NOTE 11. INCOME TAXES

The provision for income taxes differs from that which would be expected by applying statutory Canadian income tax rates. A reconciliation of the difference at December 31 is as follows:

		2012		2011
Earnings before income taxes	**$**	**27,677**	$	240,784
Federal and provincial statutory rates		**25%**		27%
Tax at statutory rates	**$**	**6,919**	$	65,012
Adjusted for the effect of:				
Non-deductible expenses		**15,975**		7,857
Non-taxable capital gains		**(546)**		(1,245)
Income taxed at lower rates		**(30,191)**		(32,260)
Impact of foreign tax rates		**(26,559)**		(7,026)
Withholding taxes		**4,009**		3,664
Taxes related to prior years		**1,053**		10,986
Other		**4,657**		319
Income tax expense (recovery)	**$**	**(24,683)**	$	47,307

In 2011, taxes related to prior years of $11.0 million includes the Canada Revenue Agency and provincial income tax settlement of prior years income taxes totaling $34.8 million offset by a reduction in prior period unrecognized tax benefits (including interest and penalties) of $23.8 million.

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

		2012		2011
Deferred income tax liability:				
Property, plant and equipment and intangibles	**$**	**686,833**	$	735,815
Partnership deferrals		**60,906**		91,319
Debt issue costs		**1,561**		–
Other		**4,260**		5,704
		753,560		832,838
Deferred income tax assets:				
Losses (expire from time to time up to 2032)		**244,888**		221,982
Debt issue costs		**–**		2,568
Long-term incentive plan		**13,917**		13,026
Other		**9,163**		7,472
Net deferred income tax liability	**$**	**485,592**	$	587,790

Included in the net deferred tax liability is $242.6 million (2011 – $ 324.9 million) of tax effected temporary differences related to the Corporations' United States operations.

The movement in temporary differences is as follows:

	Property, plant and equipment and intangibles	Partnership deferrals	Other deferred income tax liabilities	Losses	Debt issue costs	Long-term incentive plan	Other deferred income tax assets	Net deferred income tax liability
Balance December 31, 2010	$ 676,803	$ 55,819	$ 2,094	$ (136,056)	$ (6,802)	$ (8,846)	$ (4,773)	$ 578,239
Recognized in net earnings	45,686	35,500	5,712	(80,896)	4,234	(4,011)	(2,697)	3,528
Recognized in other comprehensive income	–	–	(2,148)	–	–	–	–	(2,148)
Acquired in business acquisitions *(Note 19)*	844	–	–	–	–	–	–	844
Effect of foreign currency exchange differences	12,482	–	46	(5,030)	–	(169)	(2)	7,327
Balance December 31, 2011	735,815	91,319	5,704	(221,982)	(2,568)	(13,026)	(7,472)	587,790
Recognized in net earnings	(37,034)	(30,413)	(1,413)	(27,784)	4,129	(1,058)	(1,686)	(95,259)
Recognized in other comprehensive income	–	–	–	–	–	–	–	–
Effect of foreign currency exchange differences	(11,948)	–	(31)	4,878	–	167	(5)	(6,939)
Balance December 31, 2012	**$ 686,833**	**$ 60,906**	**$ 4,260**	**$(244,888)**	**$ 1,561**	**$ (13,917)**	**$ (9,163)**	**$ 485,592**

On December 31, 2012 Precision had $34.4 million (2011 – $34.3 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, 2012 is interest and penalties of $9.2 million (2011 – $8.6 million).

Reconciliation of unrecognized tax benefits

Year ended December 31,		**2012**		2011
Unrecognized tax benefits, beginning of year	**$**	**34,300**	$	54,825
Additions:				
Prior year's tax positions		**2,033**		2,133
Reductions:				
Prior year's tax positions		**(1,976)**		(22,658)
Unrecognized tax benefits, end of year	**$**	**34,357**	$	34,300

It is anticipated that approximately $0.6 million (2011 – $1.2 million) of an unrecognized tax position that relates to prior year activities will be realized during the next 12 months. Subject to the results of audit examinations by taxing authorities and/or legislative changes by taxing jurisdictions, Precision does not anticipate further adjustments of unrecognized tax positions during the next 12 months that would have a material impact on the financial statements of Precision.

NOTE 12. SHAREHOLDERS' CAPITAL

(a) Authorized – unlimited number of voting common shares
– unlimited number of preferred shares, issuable in series, limited to an amount equal to one half of the issued and outstanding common shares

(b) Issued

Common shares		Number		Amount
Balance, December 31, 2010		275,686,676	$	2,244,417
Options exercised	– cash consideration	347,925		2,238
	– reclassification from contributed surplus	–		1,178
Issued on redemption of non-management directors DSUs		47,196		384
Balance, December 31, 2011		276,081,797	$	2,248,217
Options exercised	– cash consideration	309,954		1,926
	– reclassification from contributed surplus	–		1,124
Issued on redemption of non-management directors DSUs		83,179		706
Issued on waiver of right to dissent by dissenting unitholder		840		9
Balance, December 31, 2012		**276,475,770**	**$**	**2,251,982**

(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, 2012.

(d) Dividends
During 2012 the Corporation approved and paid a dividend of $0.05 per common share (2011 - nil) for a total payment of $14 million (2011 - nil). On February 14, 2013 the Board of Directors declared a dividend of $0.05 per common share payable on March 15, 2013 to shareholders of record on February 28, 2013.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Unrealized foreign currency translation gains (losses)	Foreign exchange gain (loss) on net investment hedge	Accumulated other comprehensive loss
Balance, December 31, 2010	$ (61,037)	$ 14,817	$ (46,220)
Other comprehensive loss	33,050	(37,692)	(4,642)
Balance, December 31, 2011	(27,987)	(22,875)	(50,862)
Other comprehensive loss	(32,878)	23,205	(9,673)
Balance, December 31, 2012	**$ (60,865)**	**$ 330**	**$ (60,535)**

NOTE 14. FINANCE CHARGES

	2012	2011
Interest:		
Long-term debt	**$ 85,113**	$ 69,959
Tax settlement and reassessment	**–**	15,372
Other	**138**	164
Income	**(1,933)**	(1,683)
Amortization of debt issue costs	**4,120**	3,444
Loss on settlement of debt facilities	**–**	26,942
Debt amendment fees	**149**	1,134
Other	**(758)**	(3,754)
Finance charges	**$ 86,829**	$ 111,578

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 2012 was $11.1 million (2011 – $8.6 million).

NOTE 16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel
The remuneration of key management personnel is as follows:

		2012		2011
Salaries and other benefits	**$**	**6,988**	$	6,065
Equity settled share based compensation		**3,257**		3,297
Cash settled share based compensation		**4,872**		7,106
	$	**15,117**	$	16,468

Key management personnel are comprised of the directors and executive officers of the Corporation. Certain executive officers have entered into employment agreements with Precision which provide termination benefits of up to 24 months base salary plus up to two times targeted incentive compensation upon dismissal without cause.

NOTE 17. COMMITMENTS

(a) Operating lease commitments
The Corporation has commitments under various operating lease agreements, primarily for vehicles and office space. Terms of the office leases run for a period of one to ten years while the vehicle lease are typically for terms of between three and four years. Expected non-cancellable operating lease payments are as follows:

		2012		2011
Less than one year	**$**	**15,561**	$	12,874
Between one and five years		**41,898**		39,555
Later than five years		**23,161**		28,528
	$	**80,620**	$	80,957

One of the leased properties was sublet by the Corporation.

The following amounts were recognized as expenses in respect of operating leases in the consolidated statement of earnings:

		2012		2011
Operating leases	**$**	**19,075**	$	13,789
Sub-lease recoveries		**(583)**		(814)
	$	**18,492**	$	12,975

(b) Capital commitments
At December 31, 2012 the Corporation has commitments to purchase property, plant and equipment totaling $157.5 million (2011 – $195.0 million). Payments of $121.0 million and $36.5 million for these commitments are expected to be made in 2013 and 2014, respectively.

NOTE 18. PER SHARE AMOUNTS

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

	2012	2011
Net earnings – basic and diluted	**$ 52,360**	$ 193,477

(Stated in thousands)	2012	2011
Weighted average shares outstanding – basic	**276,276**	275,899
Effect of share warrants	**9,418**	11,106
Effect of stock options and other equity compensation plans	**933**	1,711
Weighted average shares outstanding – diluted	**286,627**	288,716

NOTE 19. BUSINESS ACQUISITIONS

On March 29, 2011 Precision acquired all the issued and outstanding shares of Drake Directional Drilling, LLC and Drake MWD Service, LLC (collectively "Drake"). These companies provide directional drilling services in Texas, Louisiana, Oklahoma and Colorado and have been included in the Contract Drilling Services segment.

On September 9, 2011 Precision acquired all the issued and outstanding shares of Axis Energy Services Holdings Inc. ("Axis"). Axis provides directional drilling and MWD (measurement while drilling) services, primarily in Western Canada and has been included in the Contract Drilling Services segment.

In conjunction with the Axis acquisition, the purchase price was adjusted to the extent that earnings before finance charges, foreign exchange, income taxes and depreciation and amortization during the period from acquisition to December 31, 2011 and working capital at December 31, 2011 for the acquired entities is above or below a predetermined amount. As at the date of the acquisition, Precision estimated the amount of this additional consideration to be $20.4 million and recorded the contingent consideration in accounts payable and accrued liabilities. As at December 31, 2011 Precision reduced the estimated contingent liability to $18.1 million and recognized a $3.8 million recovery in the statement of earnings and a $1.5 million increase to goodwill as a result of working capital adjustments. In 2012 the contingent liability was settled, resulting in a $758 thousand recovery in the statement of earnings and a $25 thousand increase to goodwill.

The details of the acquisitions are as follows:

	Drake	Axis	Total
Net assets at assigned values:			
Working capital	$ 3,292 (1)	$ 6,363 (2)	$ 9,655
Property, plant and equipment	5,513	20,142	25,655
Intangible assets	1,460	2,759	4,219
Goodwill (not deductible)	25,521	52,514	78,035
Deferred income taxes	–	(844)	(844)
	$ 35,786	$ 80,934	$ 116,720
Consideration:			
Cash	$ 35,786	$ 59,034	$ 94,820
Contingent consideration	–	21,900	21,900
	$ 35,786	$ 80,934	$ 116,720

(1) Working capital includes cash of $2,609
(2) Working capital includes bank overdraft of $675

NOTE 20. 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, directional drilling, procurement and distribution of oilfield supplies, and manufacture, sale and repair of drilling equipment. Completion and Production Services includes service rigs, snubbing units, oilfield equipment rental, camp and catering services, and wastewater treatment units.

2012	**Contract Drilling Services**	**Completion and Production Services**	**Corporate and Other**	**Inter-segment Eliminations**	**Total**
Revenue	**$ 1,725,240**	**$ 326,079**	**$ –**	**$ (10,578)**	**$ 2,040,741**
Operating earnings	**184,819**	**62,796**	**(76,817)**	**–**	**170,798**
Depreciation and amortization	**271,993**	**30,758**	**4,774**	**–**	**307,525**
Loss on asset decommissioning	**192,469**	**–**	**–**	**–**	**192,469**
Total assets	**3,495,604**	**551,893**	**252,766**	**–**	**4,300,263**
Goodwill	**198,413**	**112,139**	**–**	**–**	**310,552**
Capital expenditures*	**750,763**	**109,202**	**8,092**	**–**	**868,057**

2011	Contract Drilling Services	Completion and Production Services	Corporate and Other	Inter-segment Eliminations	Total
Revenue	$ 1,632,037	$ 330,225	$ –	$ (11,235)	$ 1,951,027
Operating earnings	332,829	77,127	(81,268)	–	328,688
Depreciation and amortization	219,194	25,598	6,691	–	251,483
Loss on asset decommissioning	113,366	1,527	–	–	114,893
Total assets	3,380,843	473,811	573,220	–	4,427,874
Goodwill	251,507	112,139	–	–	363,646
Capital expenditures*	637,060	76,922	12,375	–	726,357

* Excludes business acquisitions

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

2012	**Canada**	**United States**	**International**	**Inter-segment Eliminations**	**Total**
Revenue	**$ 1,053,966**	**$ 936,113**	**$ 64,017**	**$ (13,355)**	**$ 2,040,741**
Total assets	**2,119,891**	**1,913,810**	**266,562**	**–**	**4,300,263**

2011	Canada	United States	International	Inter-segment Eliminations	Total
Revenue	$ 1,071,526	$ 866,776	$ 22,994	$ (10,269)	$ 1,951,027
Total assets	2,252,084	2,027,676	148,114	–	4,427,874

During the year ended December 31, 2012, revenues from one customer of the Corporation's Contract Drilling Services and Completion and Production Services segments accounted for $222.7 million (2011 – $158.4 million) of the Corporation's total revenue.

NOTE 21. FINANCIAL INSTRUMENTS

Financial Risk Management
The Board of Directors is responsible for identifying the principal risks of Precision's business and for ensuring the implementation of systems to manage these risks. With the assistance of senior management, who report to the Board of Directors on the risks of Precision's business, the Board of Directors considers such risks and discusses the management of such risks on a regular basis.

Precision has exposure to the following risks from its use of financial instruments:

(a) Credit risk
Accounts receivable includes balances from a large number of customers primarily operating in the oil and gas industry. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. In some instances the Corporation will take additional measures to reduce credit risk including obtaining letters of credit and prepayments from customers. When indicators of credit problems appear the Corporation takes appropriate steps to reduce its exposure including negotiating with the customer, filing liens and entering into litigation. The Corporation views the credit risks on these amounts as normal for the industry. Precision's most significant customer accounted for $23.0 million of the trade receivables amount at December 31, 2012 (2011 – $43.8 million).

The movement in the allowance for doubtful accounts during the year was as follows:

	2012	2011
Balance at January 1	**$ 12,179**	$ 12,848
Impairment loss recognized	**348**	915
Amounts written off as uncollectible	**(174)**	(418)
Impairment loss reversed	**–**	(1,328)
Effect of movement in exchange rates	**(166)**	162
Balance at December 31	**$ 12,187**	$ 12,179

The ageing of trade receivables at December 31 was:

	2012		2011	
	Gross	**Provision for impairment**	Gross	Provision for impairment
Not past due	**$ 197,194**	**$ –**	$ 235,461	$ –
Past due 0-30 days	**100,217**	**–**	97,200	–
Past due 31-120 days	**27,861**	**–**	35,866	305
Past due more than 120 days	**15,016**	**12,187**	11,874	11,874
	$ 340,288	**$ 12,187**	$ 380,401	$ 12,179

(b) Interest rate risk
As at December 31, 2012 and 2011, all of Precision's long-term debt bears fixed interest rates. As a result Precision is not exposed to significant fluctuations in interest expense as a result of changes in interest rates based on the debt outstanding at the end of the year.

(c) Foreign currency risk
The Corporation is exposed to foreign currency fluctuations in relation to the working capital and long-term debt of its' United States operations and certain long-term debt facilities of its' Canadian operations. The Corporation has no significant exposures to foreign currencies other than the U.S. dollar. The Corporation monitors its foreign currency exposure and attempts to minimize the impact by aligning appropriate levels of U.S. denominated debt with cash flows from U.S. based operations.

The following financial instruments were denominated in U.S. dollars:

	2012		2011	
	Canadian Operations[1]	**U.S. Operations**	Canadian Operations[1]	U.S. Operations
Cash	**$ 39,693**	**$ 61,515**	$ 297,553	$ 37,385
Accounts receivable	**56**	**237,370**	50	224,275
Accounts payable and accrued liabilities	**(13,028)**	**(184,593)**	(16,969)	(205,143)
Long-term liabilities, excluding long-term incentive plans	**–**	**(17,909)**	–	(15,851)
Net foreign currency exposure	**$ 26,721**	**$ 96,383**	$ 280,634	$ 40,666
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on net earnings	**$ 267**	**$ –**	$ 2,806	$ –
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on comprehensive income	**$ –**	**$ 964**	$ –	$ 407

(1)excludes US$1,050 million of long-term debt that has been designated as a hedge of the Corporation's net investment in certain self-sustaining foreign operations.

(d) Liquidity risk

Liquidity risk is the exposure of the Corporation to the risk of not being able to meet its financial obligations as they become due. The Corporation manages liquidity risk by monitoring and reviewing actual and forecasted cash flows to ensure there are available cash resources to meet these needs. The following are the contractual maturities of the Corporation's financial liabilities as at December 31, 2012:

(Stated in thousands)	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt	$ –	$ –	$ –	$ –	$ –	$ 1,244,645	$ 1,244,645
Interest on long-term debt [1]	81,710	81,710	81,710	81,710	81,710	241,275	649,825
Commitments	136,596	50,356	11,476	8,980	7,529	23,161	238,098
Total	$ 218,306	$ 132,066	$ 93,186	$ 90,690	$ 89,239	$ 1,509,081	$ 2,132,568

(1)interest has been calculated based upon debt balances, interest rates and foreign exchange rates in effect as at December 31, 2012 and excludes amortization of long-term debt issue costs.

Fair values

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of the unsecured senior notes at December 31, 2012 was approximately $1,330 million (2011 – $1,290 million).

Financial assets and liabilities recorded or disclosed at fair value in the consolidated balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels are based on the amount of subjectivity associated with the inputs in the fair determination and are as follows:

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The estimated fair value of unsecured senior notes is based on level II inputs. The fair value is estimated considering the risk free interest rates on government debt instruments of similar maturities, adjusted for estimated credit risk, industry risk and market risk premiums.

NOTE 22. 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, 2012 and 2011 these ratios were as follows:

		2012		2011
Long-term debt	$	**1,218,796**	$	1,239,616
Shareholders' equity		**2,171,300**		2,132,591
Total capitalization	$	**3,390,096**	$	3,372,207
Long-term debt to long-term debt plus equity ratio		**0.36**		0.37

During 2011, Precision pursued market opportunities to put long-term debt financing in place. The Company issued US$400 million aggregate principal amount of 6.5% senior unsecured notes due 2021 and $200 million aggregate principal amount of 6.5% senior unsecured notes due 2019 in private placements and retired the $175 million 10% senior unsecured notes.

As at December 31, 2012 liquidity remains sufficient as Precision has $152.8 million (2011 – $467.5 million) in cash and access to a US$850 million senior secured revolving credit facility (2011 – US$550 million) and $79.8 million (2011 – $40.3 million) secured operating facilities. The US$850 million Secured Revolver remains undrawn except for US$26.8 million (2011 – US$22.6 million) in outstanding letters of credit. Availability of the $25 million secured operating facility was reduced by $18.9 million (2011 – $0.5 million) of outstanding letters of credit and there was no amount drawn on the US$15 million secured operating facility. There were no letters of credit issued under the US$25 million secured letter of credit facility.

NOTE 23. SUPPLEMENTAL INFORMATION

Components of change in non-cash working capital balances:

		2012		2011
Accounts receivable	$	**61,052**	$	(137,620)
Inventory		**(6,707)**		(1,712)
Accounts payable and accrued liabilities		**(111,333)**		166,768
	$	**(56,988)**	$	27,436
Pertaining to:				
Operations	$	**36,474**	$	(59,616)
Investments	$	**(93,462)**	$	87,798
Financing	$	**–**	$	(746)

The components of accounts receivable are as follows:

		2012		2011
Trade	$	**328,101**	$	368,222
Accrued trade		**125,035**		161,581
Prepaids and other		**56,411**		46,440
	$	**509,547**	$	576,243

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

	2012	2011
Accounts payable	**$ 146,234**	$ 255,194
Accrued liabilities:		
Payroll	**79,978**	85,613
Other	**107,681**	95,860
	$ 333,893	$ 436,667

Precision presents expenses in the consolidated statement of earnings by function with the exception of depreciation and amortization and loss on asset decommissioning which are presented by nature. Operating expense and general and administrative expense would include $495.2 million and $4.8 million (2011 – $359.7 million and $6.7 million) respectively of depreciation and amortization and loss on asset decommissioning if the statements of earnings were presented purely by function. The following table presents operating and general and administrative expenses by nature:

	2012	2011
Wages, salaries and benefits	**$ 795,243**	$ 736,365
Purchased materials, supplies and services	**556,103**	484,813
Share-based compensation	**18,603**	34,785
	$ 1,369,949	$ 1,255,963
Allocated to:		
Operating expense	**$ 1,243,301**	$ 1,131,022
General and administrative	**126,648**	124,941
	$ 1,369,949	$ 1,255,963

NOTE 24. CONTINGENCIES AND GUARANTEES

The business and operations of the Corporation are complex and the Corporation has executed a number of significant financings, business combinations, acquisitions and dispositions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations. The Corporation's management believes that the provision for income tax is adequate and in accordance with IFRS and applicable legislation and regulations. However, there are tax filing positions that have been and can still be the subject of review by taxation authorities who may successfully challenge the Corporation's interpretation of the applicable tax legislation and regulations, with the result that additional taxes could be payable by the Corporation and the amount owed, with estimated interest but without penalties, could be up to $58 million. This amount is included in the estimated amount pertaining to the long-term income tax recoverable on the balance sheet of $65 million.

The Corporation, through the performance of its services, product sales and business arrangements, is sometimes named as a defendant in litigation. The outcome of such claims against the Corporation is not determinable at this time; however, their ultimate resolution is not expected to have a material adverse effect on the Corporation.

The Corporation has entered into agreements indemnifying certain parties primarily with respect to tax and specific third party claims associated with businesses sold by the Corporation. Due to the nature of the indemnifications, the maximum exposure under these agreements cannot be estimated. No amounts have been recorded for the indemnities as the Corporation's obligations under them are not probable or estimable.

NOTE 25. SUBSIDIARIES

Significant subsidiaries

	Country of incorporation	Ownership interest 2012	Ownership interest 2011
Precision Limited Partnership	Canada	100	100
Precision Drilling Canada Limited Partnership	Canada	100	100
Precision Diversified Oilfield Services Corp.	Canada	100	100
Precision Directional Services Ltd.	Canada	100	100
Precision Drilling (US) Corporation	United States	100	100
Precision Drilling Company LP	United States	100	100
Precision Completion & Production Services Ltd.	United States	100	100
Precision Directional Services, Inc.	United States	100	100
Grey Wolf Drilling Limited	Cyprus	100	100

Exhibit 99.4

Precision DRILLING

Corporate Policy Number One

Code of Business Conduct and Ethics

1

Precision Drilling Corporation
September 2012

Corporate Policy Number One

Code of Business Conduct and Ethics

Precision Drilling Corporation
September 2012

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In this document:

- we, us, our, company and Precision mean Precision Drilling Corporation and its subsidiaries and related entities
- *you* and *your* mean our employees, executive officers, directors and contractors
- Board means our board of directors
- *Code* means this Code of Business Conduct and Ethics.

Message from the President and CEO

We've worked hard over many years to earn our reputation as a responsible oilfield services company and a good corporate citizen. I'm extremely proud of this, and believe that everyone at Precision shares in that pride.

Achieving our business goals is critical to our success, but how we achieve them is just as important. Our stakeholders trust us to make ethical decisions and always do what's right. Any lapse in judgment can quickly destroy that confidence and have significant consequences.

This code of business conduct and ethics sets out our high standards of integrity and professionalism. The code applies to every employee, executive officer, director and contractor, and compliance is mandatory.

If you have questions, please speak to your manager, your Human Resources representative or the Senior Vice President, General Counsel & Corporate Secretary, who is also our Chief Compliance Officer.

Sincerely,



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

About this Code of Business Conduct and Ethics

This Code sets out the standards that govern the way we conduct ourselves and deal with each other, and our customers, shareholders, governments, suppliers, competitors, media and the general public.

Some business units and roles also have policies, manuals, guidelines and detailed procedures that apply specifically to their business, and many of us have responsibilities to professional associations. We must abide by all of these standards.

Take the time to read this Code. Compliance is mandatory. Every year, you will be required to acknowledge that you've read and understood it, and confirm you will abide by it. Every quarter, executive officers certify whether or not there has been any breach of the Code.

Who it Applies To

The Code applies to every employee, executive officer, member of our Board of directors and contractor. It is a condition of working with us.

What it Means to You

You have responsibilities to Precision, your colleagues, our business partners and our shareholders. The decisions and actions you take every day have a direct impact on your personal reputation, and on our reputation and standing in the community.

Before you make a decision, ask yourself these fundamental questions: Is it legal? Is it ethical? Is it fair? This applies at all levels of Precision, from major board decisions, to business transactions and other day-to-day activities you may be involved in.

While no single document can list or anticipate every possible question or situation, this Code will help you to assess things, exercise good judgment and make appropriate decisions.

Consequences

Violating the Code can have serious consequences. You could lose your job for just cause (without notice or pay in lieu of notice), be asked to step down from our Board if you're a director, or lose our business if you're a contractor. It can also lead to criminal charges or regulatory actions.

If you're aware of unethical behaviour or suspect someone has breached the Code, or any law, rule or regulation that applies to us, you have an obligation to report it. See page 18 for more information about getting advice and reporting a concern.

Exceptions

The Board can use its discretion to waive aspects of the Code, as long as it discloses it to shareholders as required by law and according to the rules of the relevant stock exchange.

The Chief Compliance Officer ("CCO") reviews employee requests, and any exception or waiver must be confirmed in writing by the President and CEO.

The Governance, Nominating and Risk Committee reviews requests for exceptions made by an executive officer or director, and any exception or waiver must be confirmed in writing by the Chairman of the Board. It also reviews any issues of material non-compliance and makes a recommendation to the Board for its review and approval.

Questions?

If you're not sure about something and need advice, speak to your manager. You can also get more information and assistance from the Human Resources, Compliance and Legal departments.

What we Expect

We expect you to carry out your responsibilities and always act with our high standard of ethics, integrity and professionalism.

This means:

- obeying the law, including employment and safety laws
- respecting our policies and procedures
- being honest
- acting in our best interests
- avoiding conflicts of interest
- protecting our property and other assets
- reporting a suspected breach of the Code.

Work Environment

All employees and executives are responsible for making sure the work environment is safe, orderly and tolerant.

Workplace safety

We comply with all safety laws, policies and procedures to help ensure our workplace is safe. You're responsible for understanding our core values and "*Target Zero Rules and Key Beliefs"* and taking the necessary precautions to ensure you and others around you are safe. See specific Health and Safety policies and procedures if you have questions.

Harassment and discrimination

We don't condone any behavior that could be construed as harassment or discrimination of any kind, whether it's related to race, religion, age, gender (including pregnancy and childbirth), marital status, family status, sexual orientation, mental or physical disability, veteran status, national or ethnic origin or any other characteristic protected under human or civil rights law. See our *Discrimination, Harassment and Workplace Violence Policy* for more information.

Sexual harassment is also against the law. It includes unwelcomed sexual advances, requests for sexual favours and other verbal or physical conduct of a sexual nature when:

- a decision about a person's employment is made because he or she submitted to or rejected unwelcome conduct, or
- the conduct interferes with a person's work or creates an intimidating, hostile or abusive work environment.

Privacy

We and you must protect private information about our internal and external stakeholders, in accordance with the laws that apply to us and our *Privacy Policy.*

Alcohol and substance abuse

You cannot:

- drink, provide or serve alcohol at any Precision location, unless the function has been approved by a member of senior management or the head of Human Resources
- give alcohol to anyone who is impaired or under the legal drinking age, or
- consume, possess, sell or distribute illegal substances.

You're responsible for taking steps to prevent anyone – a colleague, customer, supplier or other guest – from driving while impaired. If someone is impaired or using illegal substances, it's your responsibility to report it to the senior manager responsible for the event or business location.

If alcohol is available at a Precision event or business location, the senior manager responsible must put procedures in place to comply with our guidelines. See our *Drug and Alcohol Policy* for more information.

Personal Behaviour

Follow these general guidelines for ethical behaviour.

Expense claims

Use your corporate credit card as described in our *Business Expenses Policy.* All expense claims must comply with this policy as well as the Code and our *Anti-bribery and Anti-corruption Policy*

Communications materials

Personal use of our communication devices must be consistent with our *Information Systems Policies and Standard Practices.*

Discounts

You can't use our name or purchasing power to receive a discount, rebate or other personal advantage unless the same thing is offered generally.

Criminal record

You have to tell your manager or Human Resources if you're charged with a criminal offence. You may also need to report it to the appropriate regulator if you're licensed for a particular skill or qualification. You'll also need to advise us how you'll plead, and if you're found guilty.

Other inappropriate behaviour

Do not compromise another person's values, like knowingly inducing an employee of another organization to breach their own code of conduct.

Audits and investigations

Internal groups like Audit Services, Compliance, Legal and Human Resources may conduct audits or investigate issues from time to time. Cooperate with them, attend meetings as requested, answer all questions fully and accurately, and do not obstruct or delay an investigation.

Tell the truth if you're asked questions in an investigation or legal proceeding involving us, any of our employees or our customers.

Keep all investigations confidential.

Theft, Bribery and Corruption

Follow these guidelines to make sure there is no perception of corruption.

Purchasing practices

Base all purchasing decisions on the value Precision will realize, consistent with our business standards and goals.

Be sure to get competitive bids, verify the quality of the potential suppliers and the goods and services, and confirm their legality and financial condition to avoid any conflicts of interest. Document all purchasing arrangements and agreements.

Theft and fraud

Do not steal, embezzle or misappropriate funds or property belonging to us.

Anti-competitive behaviour

Do not work with competitors to set prices, rig bids or reduce competition in any way.

Competition laws are very complex and vary by jurisdiction. Speak to the Legal or Compliance department for advice about any situation you think could be perceived as anti-competitive.

Bribery and corruption

Corruption mixes together private and professional interests, resulting in someone abusing his or her power in their job for personal gain.

Bribery is a form of corruption and is prohibited under anti-corruption laws. *Any* act of bribery or corruption, even if unintentional, is against the law and can have serious legal consequences, including enforcement proceedings and criminal charges.

Depending on your role and where you're working, you may find yourself in a situation where you're offered a bribe – or are pressured to offer one yourself. We do not tolerate any form of corruption. We and you must comply with all anti-corruption laws that apply to our business.

Follow these rules when dealing with public officials and their spouses, family members and friends, as well as any entities that can influence government decisions or offer a business advantage:

- *Do* deal fairly and openly with public officials, regardless of their rank or position or level of government.
- *Do not* accept a bribe or inducement of any kind.
- *Do not* offer or promise bribes, gifts, excessive travel or entertainment, loans or any other form of inducement, directly or indirectly.
- *Do not* offer or give members of the police or military special treatment.

See our *Anti-bribery and Anti-corruption Policy*. It forms part of the Code and compliance is mandatory. The Anti-bribery and Anti-corruption Policy is more relevant to some business units and employees depending on their roles and responsibilities, and the Compliance department runs additional training every year on ethical issues, including anti-bribery and anti-corruption, for certain groups of employees. Executive officers and directors must receive this training as part of our governance practices.

Contact your Country Manager, the CCO or the Legal or Compliance department if you're not sure about something.

Complying with sanctions

We comply with Canadian and U.S. Department of Treasury economic sanction laws and regulations. These prohibit almost all trade and economic commercial transactions with persons or entities in Cuba, Iran, Syria, North Korea, Sudan and Burma. These country sanction programs also impose restrictions on doing business with specific individuals or entities. See our *Sanctions Policy* for more information.

Export controls

We comply with all import and export control laws and customs and trade regulations and rules that affect the goods used in our business, the services we offer and our technology, software or waste, wherever we do business. See our *Export Controls Policy* for more information.

Professionalism

Follow these guidelines for professional behaviour.

Political activities

We allow lobbying on behalf of Precision's interests, but political lobbying is highly regulated.

The President and CEO must approve all requests for financial support for political organizations.

Make sure the Senior Vice-President, General Counsel & Corporate Secretary is aware of any company communication you have with government officials, including elected officials and bureaucratic staff. This doesn't, however, include dealings with regulators on ordinary matters (Alberta's Energy and Resources Conservation Board, Occupational Health & Safety officials and other regulators in Canada and the U.S. that interact with us in the ordinary course of business), unless their actions raise questions under this policy.

If you're involved in any personal political activities, you must do so in your own right and not on behalf of Precision.

We support a variety of charitable organizations in our communities, and emphasize those that are most important to our employees and customers. Corporate and employee support is coordinated through our donations program.

Outside directorships

If you serve on our board, you need our consent to serve as a director, officer, partner, consultant or in any other role in an unaffiliated profit-making organization if it competes with us or provides goods or services to us.

Advise the Senior Vice President, General Counsel & Corporate Secretary before you accept a role so they can assess the situation and determine whether there's an actual or potential conflict of interest.

Fair dealing

Employees and our business partners must deal fairly with our customers, suppliers, competitors, employees and other stakeholders.

Do not act dishonestly or outside reasonable commercial standards of fair dealing.

Any business partner who knowingly seeks to have you or anyone else violate the terms of this Code, will face consequences, like cancelled contracts or arrangements and any potential future business.

Conflicts of Interest

You can find yourself in a “conflict of interest” if a personal decision or interest makes it difficult to perform your duties objectively, or it interferes or conflicts with our corporate interests.

Avoid situations that compromise (or appear to compromise) your ability to act in our best interests, including:

- using our property or information, or your position, for a personal or family benefit
- conducting a transaction between Precision and any organization that you or a family member has an interest in
- influencing a decision relating to a material contract or transaction that we have or may potentially have an interest in
- competing with Precision directly or indirectly, including serving as a director or consultant for anyone that does business with us or is a direct competitor or owning or controlling a significant interest in an entity that does business with us or is a direct competitor.

Disclose all real, potential and perceived conflicts of interest to your manager or the Chief Compliance Officer or call *Ethics Point,* our confidential, anonymous hot line at 1.866.292.8632 or go to www.precisiondrilling.com and click the secure Ethics Point link at the bottom of the home page.

If you’re an executive officer or director of an entity that is a party to a material contract or transaction, disclose this to the board immediately.

We’ll also ask you to disclose any actual or potential conflicts of interest when you review the Code and certify your compliance each year.

Gifts and Entertainment

You can give or receive gifts that are promotional and minimal value, as long as they could not be considered a bribe. A gift cannot be cash or readily convertible to cash (such as securities, cheques or money orders).

Do not provide excessive or lavish entertainment or hospitality to a public official or third party, like an existing or potential customer, supplier, employee or others we may do business with.

If you're not sure whether something is acceptable, ask yourself:

- Is it consistent with accepted business standards?
- Would it be embarrassing to either party if it became public?
- Is it legal and ethically acceptable?
- Is it bona fide and considered reasonable?

Make sure you avoid any perception of preferential treatment or that a public official might use his or her position to grant business or a business advantage in return.

Nominal value

Generally, a gift is nominal value if it's less than $250 – small enough that it could not be seen as a bribe or an attempt to induce someone to misuse his or her position.

The circumstances and timing of the gift are also important. If the person or one of their family members is a member of government or an employee of a state-owned or state-controlled agency (either in Canada or a foreign country), make sure you're complying with our *Anti-bribery and Anti-corruption Policy* to avoid triggering any serious penalties. The level of what is considered appropriate may be lower than $250 in this case.

More about gifts and entertainment

- You can go to lunch or dinner with a supplier, or take them, as long as it's consistent with our business practices but understand that the supplier will likely try to maintain or increase their business with us.
- You cannot attend a networking or educational event where the travel expenses or overnight accommodation are paid by a supplier, unless you receive prior approval from a member of senior management. If you want to invite an existing or potential client at our expense, you must receive prior approval from a member of senior management.
- You can take a customer or a supplier to a local sporting or other event, or attend as their guest, if it's reasonable and consistent with our business practices. If you want to offer tickets to an event, or accept tickets for personal use, you must follow our policy.
- You must not take a customer or supplier to an event or facility where there is lewd or other inappropriate behaviour, or attend as their guest. It's also not a valid business expense.
- You can give or accept a gift certificate or gift card to a local restaurant or retailer if it has a modest value and generally cannot be converted into cash.
- You can buy discounted merchandise or services from a third party if the same offer is made to groups of people outside the company. If not, speak to your manager or the Compliance department so we can determine if there is a perceived, potential or actual conflict of interest.

See our *Business Expenses Policy* for more details. If you're unsure about the value of a gift, speak to your manager or the Chief Compliance Officer for guidance and to make sure that we also comply with department, region or country-specific policies.

Corporate Opportunities

You have a duty to advance our business interests whenever an opportunity arises. Do not get involved in a business that may become a competitor, or acquire an interest in a business or other assets that we might reasonably be expected to have an interest in without first offering the opportunity to us.

You and your family (including your spouse, partner or children) should not own, control or have a material financial interest in any of our suppliers, contractors or competitors, or in any business enterprise that does business with or seeks to do business with us. If there is a possibility of us having a business relationship with a relative, contact the Compliance or Legal department so they can assess the facts and judge whether it is a perceived, potential or actual conflict of interest.

Relationships in the Workplace

Make all human resources decisions based on sound management practices. Do not give any special employment considerations to a friend, relative or someone you have a close personal relationship with, or receive any special treatment from them.

If you have a supervisory or subordinate relationship with a relative or someone you have a close personal relationship with, report it right away to your manager and a Human Resources representative. A subordinate is anyone with a direct or indirect reporting relationship.

We may relocate one of you or re-assign job duties if there's an actual or perceived conflict of interest.

Our Responsibility to Shareholders

We have a duty to our shareholders to meet disclosure requirements, respect insider trading laws and protect our assets.

Disclosure

We issue timely, fair and accurate disclosure of all material information to keep shareholders and the public informed of our affairs. We're required by law and the rules of the stock exchanges our shares are traded on to disclose all material information about Precision promptly – whether it's favourable or not.

Our Disclosure Policy explains our disclosure practices for material information – information that could have a significant impact on the market price of our shares or other securities.

If you're responsible for preparing or reviewing material information, we expect you to devote the time and attention necessary to make sure all information we disclose is accurate and complete. Make sure you also foster an environment of open communication so employees are encouraged to speak up if something isn't right.

Insider Trading

Depending on your role and responsibilities, sometimes you may have access to material information about Precision that we haven't yet made available to the public. That knowledge is inside information according to applicable securities law.

Trading in our securities based on this information, or sharing the information with others so that they can profit from trading in our securities, is against the law and can have serious consequences.

See our *Insider Trading Policy* to help you understand your responsibilities as an insider, trading you can and can't do as an insider or when in possession of inside information under Canadian and U.S. securities laws, and other guidelines that apply to handling material non-public information.

Protecting our Assets

You're responsible for protecting our property and other assets from harm, loss or misuse. This includes company cash, time, materials, supplies, premises, equipment, records, employee information, computer resources and information systems.

Managers have specific responsibilities for establishing and maintaining appropriate internal controls to safeguard our assets from loss and unauthorized or improper use or disposition.

If you're aware of any actual or potential harm, loss or misuse of our property, report it immediately to your manager or a member of senior management.

Confidential information

You cannot disclose confidential information about our business and any information we receive from our customers or business partners.

You can only disclose confidential information if it's authorized under our disclosure or insider trading policies, or required by law.

You're required to keep our information confidential even after you leave Precision or no longer have an association with us.

Information technology

Our computer networks and information resources (electronic mail, messaging systems, intranet and public website) are for company-related business.

You cannot use our computers to view, retrieve or send sexually related or pornographic material, violent or hate-related material, or bigoted, racist or other offensive messages or any other material related to illegal activities.

Be aware that information on your computer, or any of our other computer or systems, is not private. We have the right to monitor access and the content of our systems and network to protect our resources. Check our *Information Technology Policies and Standard Practices* if you have any questions.

Business records and communications

You're responsible for the integrity of any reports, records and communications you work on. All entries must be true and accurate and not altered in any way, and be able to withstand public scrutiny. You must not set up or operate an invalid account on our books or manipulate any internal accounts, or allow someone else to do so. This applies to any of our financial reports, sales reports, expense reports, time sheets and other reports.

Our documents and records can only be destroyed as described in our *Records Retention Policy*

Copyrighted material

We can only reproduce and use software, videos, music and other copyrighted material according to copyright laws.

Patents and inventions

If we copyright something that you invent, discover or develop while working for us or that is related to your employment, it belongs to us unless we confirm otherwise in writing.

Reporting a Concern

You have a duty to report a violation of this Code, the law, or any rules or regulations that apply to us. There will be no retaliation if you make a report in good faith.

Contact one of the persons listed below depending on the circumstances or nature of the situation:

Area of Concern	Contact	
All Matters	Joanne Alexander CCO Senior Vice President, General Counsel & Corporate Secretary	 403.716.4636 jalexander@precisiondrilling.com
	John Scalise Director, Audit Services	403.716.4590 jscalise@precisiondrilling.com
	La Tricia Blackburn Manager, Compliance	713.435.6167 lblackburn@precisiondrilling.com
Human Resources	Brad Lindemann Director, Human Resources	713.435.6139 blindemann@precisiondrilling.com
International	Ahmend Al-Balushi Manager, Country - Saudi Arabia	+966.554.788.778 ex 1530 aalbalushi@precisiondrilling.com
	Jorge Rios Vice President, Latin America	+57.1.743.7268 jrios@precisiondrilling.com
Legal	Olof Arnman Corporate Counsel, International	+971.4376.2626 oarnman@precisiondrilling.com
	Veronica Foley Associate General Counsel, Americas	713.435.6216 vfoley@precisiondrilling.com
	Kim Jones Senior Corporate Counsel, Canada	403.716.4619 kjones@precisiondrilling.com

You can also report a concern or ask a question through the anonymous and confidential *EthicsPoint* hotline. Messages are delivered to the CCO and in some instances, the Board of Directors, for follow-up.

About Ethics Point

An agent is available 24 hours a day, seven days a week:

- call 1.866.292.8632
- go to www.precisiondrilling.com and click the secure *EthicsPoint* link at the bottom of the home page.

Tips for dealing with concerns arising under this Code

1. *Recognize it's a challenging situation*

- ¡ Collect the facts without rationalizing the information or passing judgment
- ¡ Identify everyone who knows about the situation

2. *Consider the available options*

- ¡ Weigh the business and ethical pros and cons
- ¡ Consider the impact that each option will have on different stakeholders
- ¡ Think about the long-term impact of your decision

3. *Reach a preliminary decision. Test it by asking yourself:*

- ¡ Does it strike the right balance – does it seem ethical, legal and fair?
- ¡ Can you explain the decision to those affected? Can you explain it to close family members in a way that wouldn't embarrass you or Precision?
- ¡ Could this decision harm the company or your own reputation?
- ¡ Should you ask your manager or others for help?

4. *Make your decision and be transparent*

- ¡ Difficult ethical situations can make you uncomfortable. You may have to choose between two imperfect outcomes.

Gather this information, then speak to your manager, the Senior Vice President, General Counsel & Corporate Secretary, the Human Resources department or one of the others listed in the "Reporting a Concern" table.

History of this Policy

The Board adopted this Code as a governance practice in December 2006. It has been revised five times as follows:

Version #	Date Revised	Type of Change
1	December 2006	policy is established
2	April 2009	updated information about the hotline
3	December 2009	minor changes
4	May 2010	minor changes to the scope of the policy
5	June 1, 2010	minor changes to reflect our conversion from an income fund to a corporate structure
6	September 1, 2012	general update

Appendices

Appendix A

Acknowledgement – New Employees

When you join Precision, we expect you to carry out your responsibilities and maintain our high standards of ethics, integrity and professionalism.

Our Code of Business Conduct and Ethics sets out the standards that govern the way we conduct ourselves and deal with others. You must comply with the Code and our other key policies as a condition of working at Precision:

- Anti-bribery and Anti-corruption Policy
- Business Expenses Policy
- Disclosure Policy
- Discrimination, Harassment and Workplace Violence Policy
- Drug and Alcohol Policy
- Employee Privacy Policy
- Information Technology Policies and Standard Practices (doesn't apply to field employees)
- Insider Trading Policy

1. Please check the appropriate boxes below, then sign and date the form.

¨ You acknowledge that you have read and understood our Code and other key policies listed above.

¨ You confirm that you will comply with these policies.

¨ You confirm that you will comply with these policies, except for the following:

2. Please sign here

Name (please print)

Signature

Date

3. Return your completed form to: HR

Appendix B

Annual Employee Acknowledgement

As a condition of working at Precision, you are required to certify every year that you will continue to comply with the following key policies:

- Anti-bribery and Anti-corruption Policy
- Business Expenses Policy
- Code of Business Conduct and Ethics
- Disclosure Policy
- Discrimination, Harassment and Workplace Violence Policy
- Drug and Alcohol Policy
- Employee Privacy Policy
- Information Technology Policies and Standard Practices (doesn't apply to field employees)
- Insider Trading Policy

1. Please check the appropriate boxes below, then sign and date the form.

¨ You acknowledge that you have read and understood our Code and other key policies listed above.

¨ You confirm that you complied with these policies in _____ .

¨ You confirm that you complied with these policies in _____, except for the following:

2. Please sign here

Name (please print)

Signature | Date

3. Return your completed form to:

Compliance Department