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, 2013

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: 291,979,671 Common Shares outstanding as at December 31, 2013.

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	333-189046
S-8	333-189045
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, 2013, 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, 2013, 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, 2013, 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, Brian J. Gibson, 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” and “Audit Committee – Relevant Education and Experience” in the Annual Information Form. The Commission has indicated that the designation of a person as an audit committee financial expert does not make them an “expert” for any purpose, impose any duties, obligations or liability on them that is greater than that imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee or the board of directors.

CODE OF ETHICS

The Registrant has adopted the Code of Business Conduct and Ethics (the “Code”) which applies to every director, officer and employee of the Registrant, including the principal executive officer, principal financial officer, principal accounting officer or controller and any person performing similar functions. The Code is available on the Registrant’s website at www.precisiondrilling.com. No waivers have been granted from, and there have been no amendments to, any provision of the Code during the 2013 fiscal year.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

For information on principal accountant fees and services, see “Audit Committee – Pre-approval Policies and Procedures” and “Audit Committee – 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 “Financial Condition – Contractual Obligations” 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
Patrick M. Murray
Robert L. Phillips

MINE SAFETY DISCLOSURE

Not applicable.

NYSE CORPORATE GOVERNANCE

The Registrant's common shares are listed on the NYSE. A description of the significant ways in which the Registrant's corporate governance practices differ from those required of domestic companies under NYSE listing standards is provided on the Registrant's website at www.precisiondrilling.com.

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: (signed) "*Kevin A. Neveu*"
Name: Kevin A. Neveu
Title: President and Chief Executive Officer

Date: March 14, 2014

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, 2013.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2013.
99.3	Consolidated Financial Statements for the fiscal year ended December 31, 2013.

Exhibit 23.1

KPMG LLP
205-5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

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

Consent of Independent Registered Public Accounting Firm

To the Board of Directors of Precision Drilling Corporation

We consent to the use of our report, each dated March 7, 2014, with respect to the consolidated statements of financial position of Precision Drilling Corporation as at December 31, 2013 and December 31, 2012, the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended, and the effectiveness of internal control over financial reporting as of December 31, 2013 included in this annual report on Form 40-F.

We also consent to the incorporation by reference of such reports in the Registration Statements (Nos. 333-189046, 333-189045, 333-167614) on Form S-8 and the Registration Statement (No. 333-167610) on Form-10.

KPMG LLP

Chartered Accountants
March 14, 2014
Calgary, Canada

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 14, 2014

By: (signed) "*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 J. 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 14, 2014

By: (signed) "*Robert J. McNally*"
Robert J. 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, 2013, 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.

Dated: March 14, 2014

By: (signed) "*Kevin A. Neveu*"
Kevin A. Neveu, President & Chief Executive Officer
of Precision Drilling Corporation

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, 2013, 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.

Dated: March 14, 2014

By: (signed) "*Robert J. McNally*"
Robert J. McNally, Chief Financial Officer of
Precision Drilling Corporation

Exhibit 99.1

Annual Information Form

Precision Drilling Corporation

For the fiscal year ended December 31, 2013

March 14, 2014

Precision DRILLING

Annual
Information Form

Precision

Precision
Drilling
Corporation

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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 our conversion.

Information in this AIF is as of March 14, 2014. 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 are often, but not always, identified by the use of words and phrases such as “anticipate”, “could”, “should”, “can”, “expect”, “seek”, “may”, “intend”, “likely”, “will”, “plan”, “estimate”, “believe” and similar expressions. Our forward-looking information and statements include the outcome from the tax reassessment proceedings in Ontario involving one of our subsidiaries and the deployment of two new-build Super Triple drilling rigs to Kuwait in 2014.

The forward-looking information and statements in this AIF are based on certain factors and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. These include, among other things, our expectations regarding our customers’ capital budgets and geographical areas of focus, our ability to operate our business in a safe, efficient and effective manner, the general stability of the economic and political environment in Kuwait and our knowledge and understanding of applicable tax legislation and court proceedings.

Since forward-looking information and statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking information and statements due to a number of factors and risks including the following:

- volatility in the price and demand for oil and natural gas
- delays or changes in plans with respect to our customers’ exploration or production projects or capital expenditures
- liquidity of the capital markets to fund our customers’ drilling programs
- the availability of cash flow, debt and equity sources to fund our capital and operating requirements, as needed
- general economic, market or business conditions
- the impact of weather and seasonal conditions on our operations and facilities
- the availability of qualified personnel, management or other key inputs
- fluctuations in foreign exchange, interest rates and tax rates
- operating in foreign countries where the political and economic systems may be less stable than in Canada or the U.S.
- uncertainty in judicial decision-making and proceedings
- other unforeseen conditions that could affect the use of our services.

You are cautioned that the foregoing list of risk factors is not exhaustive. Other risks and uncertainties are set out in this AIF under the heading *Risks to Our Business*.

The forward-looking information and statements contained in this AIF are made as of the date hereof and are qualified by these cautionary statements. Precision undertakes no obligation to update publicly or revise these forward-looking information and statements as a result of new information, future events or otherwise, unless we are required to do so by law.

About Registered Trademarks

We own registered trademarks, service marks and trade names that we use in our business including *Precision Drilling Corporation*, *Precision Drilling, PD logo and design*, *Grey Wolf*, *Super Series*, Precision *Super Single* and *Super Triple*.

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 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.**). We also have drilling operations in Mexico, Saudi Arabia and the Kurdistan region of northern Iraq and are contracted to commence operations in Kuwait in 2014. 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.

On March 8, 2013, we amended our by-laws to, among other things, provide for an advance notice framework for the nomination by Precision shareholders of directors for election to the Board and to increase the quorum requirement for our shareholder meetings from 5% to 25%. The amendments were confirmed by our shareholders on May 8, 2013.

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 SW, Calgary, Alberta, Canada T2P 1G1
Phone: 403.716.4500 Fax: 403.264.0251
Email: info@precisiondrilling.com Website: 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

2013

Rig Fleet Upgrades

We placed seven newly constructed (or new-build) Super Series rigs into service under previously negotiated term contracts:

- two Super Triple rigs in Canada
- five Super Triple rigs in the U.S.

We also delivered 19 upgraded drilling rigs under term contracts:

- six in Canada
- seven in the U.S.
- six internationally (two in the Kurdistan region of northern Iraq and four in Mexico).

These new and upgraded rigs were part of our 2013 property, plant and equipment capital expenditure program.

Capital Expenditures

In 2013, our capital program totalled $536 million ($282 million for expansion capital, $141 million for upgrade capital, and $113 million for the maintenance of existing assets and infrastructure).

Dividend Increase

For the first nine months of 2013, we paid a quarterly dividend of $0.05 per common share. In the fourth quarter, we increased the dividend by 20% to $0.06 per common share.

See *Our Capital Structure – Dividends*.

Amendments to Credit Facility

We amended our secured credit facility (as amended, the **Secured Facility**), extending the maturity date by one year to November 17, 2018.

See *Material Debt – Secured Facility*.

Shareholder Divestiture

On December 5, 2013, the Alberta Investment Management Corporation (**AIMCo**) sold its entire equity stake of approximately 56 million common shares in the capital of Precision in an overnight marketed transaction. This included the exercise of 15 million warrants of Precision, each exercisable for one common share, at an exercise price of $3.22 per common share for aggregate proceeds to Precision of $48 million.

Tax Reassessment

In June 2013, a wholly owned subsidiary of Precision lost a tax appeal in the Ontario Superior Court of Justice related to a reassessment of Ontario income tax for the subsidiary's 2001 through 2004 taxation years. Precision has appealed the decision to the Ontario Court of Appeal, and we expect this appeal to be heard in 2014.

2012

Rig Fleet Upgrades

In 2012, we placed 36 new-build Super Series rigs into service under previously negotiated term contracts:

- 13 Precision Super Single rigs, six Super Triple rigs and one Super Double rig in Canada
- two Precision stretch Super Single rigs and 14 Super Triple rigs in the U.S.

We also delivered 11 upgraded rigs under term contracts:

- six in Canada
- one in the U.S.
- four internationally.

These rigs were part of our 2012 property, plant and equipment capital expenditure program.

Capital Expenditures

Our 2012 program totalled $868 million ($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 upgraded drilling rigs to work on multi-year contracts in Mexico that began operations in 2012 and two additional rigs that began operating in 2013
- two upgraded drilling rigs to work on multi-year contracts in northern Iraq that began operating in 2013
- two new Super Triple 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 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 annualized 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.

See *Our Capital Structure – Dividends*.

Asset Write Downs

We decommissioned 52 drilling rigs (42 Tier 3 rigs and 10 Tier 2 rigs). Certain components of the decommissioned rigs will be used in our ongoing operations. We exited the Tier 3 contract drilling rig business (Tier 3 rigs are conventional mechanical rigs with no automation and lower pumping capacity) but kept 26 mechanical drilling rigs for seasonal, stratigraphic and turnkey drilling work (the **PSST rigs**).

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

Rig Fleet Upgrades

By the end of 2011, we had placed 19 new-build Super Series rigs into service under previously negotiated term contracts:

- seven Precision Super Single rigs in Canada
- 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 2011 property, plant and equipment capital expenditure program.

Capital Expenditures

Our 2011 program totalled $726 million ($455 million for expansion 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.

Rig Decommissioning

We announced the decommissioning of 36 drilling rigs (19 in Canada and 17 in the U.S.) and 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 acquired Axis Energy Services Holdings Inc., a provider of directional drilling and measurement while drilling (**MWD**) services, primarily in western Canada.

We also acquired Drake Directional Drilling, LLC and Drake MWD Services, LLC, providers of directional drilling and MWD services in Texas, Louisiana, Oklahoma and Colorado.

U.S. Senior Note Offering

We completed a US$400 million offering 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*.

Credit Facility Amendment

We entered into an amendment to our Secured 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*.

Canadian Senior Note Offering

We completed a $200 million offering 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 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*.

Tax Reassessment

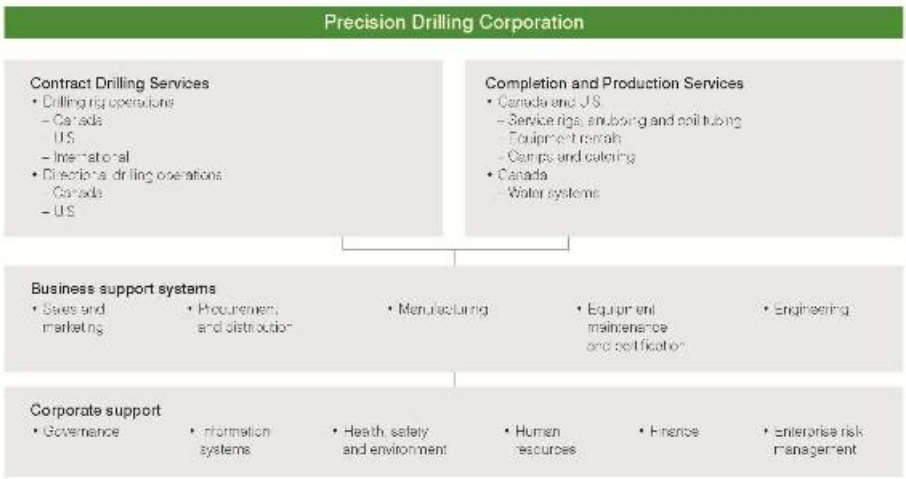
We received a notice of reassessment from the Canada Revenue Agency (**CRA**) for federal tax and interest relating to a transaction in 2005. We objected to the reassessment and, in 2011, reached agreements with the CRA and Alberta Finance to resolve the results of the prior year audit. We received income tax reassessments from the CRA and Alberta Finance totalling $37 million in income tax, including 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**). The transition to IFRS did not materially affect our debt covenants or 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.

ABOUT OUR BUSINESSES

We have two business segments – Contract Drilling Services and Completion and Production Services, which share business support systems and corporate and administrative services.



The table below summarizes our two business segments 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 and provides onshore well drilling services to exploration and production companies in the oil and natural gas industry At December 31, 2013, the segment consisted of: ¡ 327 land drilling rigs, including: – 187 in Canada – 127 in the U.S. – 8 in Mexico – 3 in Saudi Arabia – 2 in Kurdistan ¡ capacity for approximately 88 concurrent directional drilling jobs 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 international operations.	Canada	¡ land and drilling services ¡ directional drilling services ¡ procurement and distribution of oilfield supplies ¡ manufacture and refurbishment of drilling and service rig equipment
	U.S.	¡ 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 but with a growing presence in the U.S. At December 31, 2013, the segment consisted of: ¡ 191 service rigs, including: – 184 in Canada – 7 in the U.S. ¡ 19 snubbing units, including: – 17 in Canada – 2 in the U.S. ¡ 12 coil tubing units, including: – 4 in Canada – 8 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 ¡ 235 wellsite accommodation units in Canada and 67 in the U.S. ¡ 50 drilling camps and three base camps in Canada and two drilling camps and one base camp in the U.S. ¡ 10 large-flow wastewater treatment units, seven potable water production units and 24 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
	U.S.	¡ 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 dollars)*	2013	2012	2011
Contract Drilling Services	**$1,719,910**	$1,725,240	$1,632,037
Completion and Production Services	**323,353**	326,079	330,225
Inter-segment Eliminations	**(13,286)**	(10,578)	(11,235)
Total revenue	**$2,029,977**	$2,040,741	$1,951,027

Contract Drilling Services

Precision Drilling

At the end of 2013, we operated a versatile fleet of 327 land rigs deployed in Canada, the U.S. and internationally.

- *Canada* — We operated the largest fleet of land drilling rigs. We actively marketed 187 drilling rigs located throughout western Canada, accounting for approximately 23% of the industry's estimated fleet of 819 drilling rigs.
- *United States* — We marketed 127 land drilling rigs, the fourth largest fleet, representing approximately 4% of the country's estimated 2,877 total marketed land drilling rigs.
- Internationally — We had three land drilling rigs operating in Saudi Arabia, eight operating in Mexico and two operating in the Kurdistan region of northern Iraq.

Drilling Contracts

Our contract terms are generally based on the complexity and risk of operations, on-site drilling conditions, type of equipment used, and 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 escalation provisions, 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 two-to-five year term contracts in place before the rig is completed; in most cases contracts are in place before construction begins.

In 2013, we had term contracts for an average of 115 drilling rigs (59 in Canada, 46 in the U.S. and 10 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 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 2013) on a turnkey basis. Under a turnkey contract, we agree to drill a well to a certain 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., wet weather and the spring thaw make the ground unstable resulting in road restrictions that limit the movement of heavy oilfield equipment and reduce the level of drilling and well servicing activity during the second quarter of the year.

In northern Canada, some drilling sites can only be accessed in the winter once the terrain is frozen, which is usually late in the fourth quarter. Our business activity depends, at least in part, upon the severity and duration of the winter drilling season.

Competition

The land drilling industry is highly competitive and fragmented with the top 10 providers owning approximately 54% of the marketed rig fleet in the U.S. and approximately 78% of the industry fleet in Canada. Technology is increasingly differentiating the market, as complex drilling programs for resource exploration demand high performance drilling rigs. Top tiered rigs experience higher utilization levels and more stable dayrates. Our Tier 1 and Tier 2 rigs represent 93% of our fleet.

In 2013, we had a footprint in virtually all of the large resource plays, including the Bakken, Cardium, Duvernay, Lower Shaunavon, Montney and Viking formations in Canada and the Bakken, Barnett, Eagle Ford, Granite Wash, Haynesville, Marcellus, Niobrara, West Texas and Uinta resource plays in the U.S.

Drilling Fleet

We categorize our rigs as Tier 1, Tier 2, or PSST (seasonal, stratigraphic and turnkey) rigs based on drilling requirements and mobility. At the end of 2013, we had a fleet of 327 rigs, consisting of 200 Tier 1 rigs, 103 Tier 2 rigs and 24 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, 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 *(Precision seasonal, stratigraphic and turnkey)* 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 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

We focus on providing efficient, cost-reducing drilling technology. Design innovations and technology improvements, such as multi-well pad capability and mobility between wells, capture incremental time savings during all phases of the well drilling process. The following factors, among others, minimize downtime and benefit our customers by lowering their well costs:

- using innovative and advanced drilling technology that is efficient
- low unplanned mechanical downtime (managed through preventive maintenance programs)
- detailed inspection processes
- strategically located spare equipment
- in-house supply chain management
- 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 2013, we had capacity for approximately 88 concurrent directional drilling jobs 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 natural gas drilling market. Grey Wolf 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.

At the end of 2013, Grey Wolf operated three land drilling rigs in Saudi Arabia, eight in Mexico and two in the Kurdistan region of northern Iraq. The two new-build Super Triple drilling rigs under contract in Kuwait are scheduled to commence operating in 2014.

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 94% of its revenues in 2013 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 such as 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 our supply chain management. Nearly all (99%) of their oilfield supply activities supported Precision operations in Canada, the U.S. and international in 2013. This reduces the administrative workload for field personnel and enhances 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 as well as snubbing units and coil tubing units for pressure control services. The fleet is strategically positioned throughout western Canada and in the northern U.S.

Well Service Activities

Well servicing and pressure control jobs are generally of short duration, preferably conducted during daylight hours, so it is important for a service rig to be close to customer demand and able to move quickly from one site to another. Well servicing requires a unique skill set; 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 2013, Precision Well Servicing had a Canadian industry market share of approximately 16% with a fleet of 184 service rigs, the largest in western Canada, compared to a Canadian industry fleet average of approximately 1,050 service rigs. We also operated seven service rigs in the U.S.

Service Rates

Precision Well Servicing typically charges customers an hourly rate for completion, workover and pressure control services based on factors such as 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 as at December 31, 2013. The fleet's operating features are detailed on our website.

Type of Service Rig	Size	Total
Mobile Rigs		
Highly mobile, efficient rig up and rig down, minimal surface disturbance, freestanding design eliminates anchoring	Single	90
	Double	59
Freestanding rigs comprise 78% of the fleet	Slant	20
Skid Mounted Rigs		
Designed for deeper wells with multi-zone completions or re-completions, service jobs are generally of longer duration so rigs move less often	Double	22
Total		**191**

Service Rig Activities

Well servicing operations have two distinct functions – completions and workovers. The demand for completion services is generally more volatile than for workover services.

Of our total oil and natural gas well service rig activity in Canada in 2013:

- workovers and abandonments accounted for approximately 91%
- completions accounted for approximately 9%.

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.

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 such as 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 natural 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.

Pressure Control Services

Snubbing Services — Snubbing units can be employed to provide a wide range of services. While traditional well servicing operations require pressure in a well to be neutralized, or 'killed' using fluids (potentially impairing production) in order to safely perform the services, snubbing units perform certain workover and completion activities under pressure (without killing the well). 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.

At the end of 2013, we marketed 11 portable hydraulic rig-assist snubbing units and six self-contained snubbing units in western Canada and two in the U.S.

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 performed 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, including 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 2013, Precision operated four coil tubing units in western Canada and eight 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. Precision also has approximately 100 pieces of rental equipment in the northern U.S. 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 has five 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.

Precision Camp Services

Precision Camp Services provides food and accommodation to personnel working at the wellsite, typically in remote locations in western Canada. At the end of 2013, Precision Camp Services had 50 drill camps and three base camps in western Canada. Precision also had two 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.

Precision Camp Services has also configured several 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 natural 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. Precision Camp Services serves Precision and other companies in the upstream oil and natural 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 10 large-flow wastewater treatment plants, seven potable water production plants and 24 pump houses that are used in base camp and other large remote work site markets. These treatment 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 visit each treatment facility regularly to conduct sampling and independent laboratory effluent testing as part of their system management. The wastewater treatment plants are designed to be easy to operate. They 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 is never complacent about an injury to a Precision employee. We recognize risks at job sites and work to reduce them so we achieve our goal of zero injuries.

In 2013, we achieved our best ever safety record as measured by the industry standard of total recordable injury frequency. Our total hours worked increased 1% while our recordable injury frequency decreased by 20% and our lost-time accident frequency decreased by 14% compared to 2012.

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

Drilling rigs	¡ have high-efficiency diesel engines that meet regulatory emission specifications ¡ use AC electric power generation and distribution and control systems that 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	¡ have advanced muffler systems to reduce noise
Engine radiator systems	¡ have variable pitch fans to reduce horsepower requirements
Rig drawworks	¡ use regenerative breaking to eliminate brake noise from conventional band brake systems
Rig buildings	¡ have thermal insulation 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. We have introduced the use of low carbon emission natural gas engines and bi-fuel systems and continue to assess alternative fuel types and other methods of power and heat generation, noise abatement, lowering carbon emissions, and systems for recovering waste energy.

Our People

We had approximately 8,530 employees at the end of 2013. The majority of our employees work on our drilling and service rigs and are compensated on an hourly basis. 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, as these help us attract and retain employees when manpower shortages are experienced in the industry during 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 93% in Canada and 90% in the U.S. in 2013.

OUR CAPITAL STRUCTURE

Common Shares

We can issue an unlimited number of common shares. There were 291,979,671 common shares issued and outstanding as at December 31, 2013 and 292,114,439 common shares issued and outstanding as at March 1, 2014.

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 2013. Our common shares trade on the TSX, under the symbol *PD*, and on the NYSE, under the symbol *PDS*.

	TSX (PD)			NYSE (PDS)		
	High ($)	**Low ($)**	**Volume**	**High (US$)**	**Low (US$)**	**Volume**
January	9.49	8.09	18,311,010	9.42	8.21	26,616,952
February	9.40	8.26	18,164,877	9.41	8.02	22,398,410
March	9.43	8.05	14,878,665	9.28	7.81	25,943,213
April	9.39	7.47	25,142,189	9.25	7.29	36,333,882
May	9.02	7.81	16,077,456	8.73	7.73	19,182,522
June	9.72	8.60	15,664,065	9.54	8.16	28,218,595
July	10.65	8.99	22,175,806	10.36	8.55	22,556,549
August	11.10	10.05	18,519,041	10.77	9.57	19,874,856
September	11.11	10.01	20,932,225	10.76	9.72	16,061,674
October	11.53	10.15	16,065,712	11.21	9.77	20,151,623
November	11.09	9.72	14,656,581	10.63	9.18	13,926,251
December	10.27	9.20	96,869,641	9.62	8.61	37,607,965

Dividends

In December 2012, the board announced an annualized dividend of $0.20 per common share, payable quarterly. For the fourth quarter of 2013, the board declared a dividend of $0.06 per common share, a 20% increase over the dividend declared in prior quarters.

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

Our Secured 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 2013.

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:

	2013	2012	2011
Dividends declared on common shares	**$0.21**	$0.05	–

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. The plan is designed to protect the rights of all shareholders and maximize value if there is ever a takeover bid for Precision. Under our shareholder rights plan agreement with Computershare Trust Company of Canada, 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.

Shareholders confirmed the continuation and revisions to the plan at the 2013 annual and special meeting of shareholders.

Warrants

On April 22, 2009, we issued 15,000,000 purchase warrants under a private placement. Each warrant was exercisable for one common share at a price of $3.22 per common share for five years from the date of issue. All of the purchase warrants were exercised in December 2013 for proceeds to Precision of $48 million.

Preferred Shares

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. There are currently no preferred shares issued and outstanding.

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 conditions, and any conversion rights.

Material Debt

As at December 31, 2013, we had:

- US$822 million (excluding letters of credit of US$28 million) available under the Secured Facility
- US$650 million outstanding under the 2010 offering of 6.625% senior unsecured notes (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 and EDGAR.

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 that 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**, as set out in the Secured Facility). The Secured Facility includes representations and warranties, covenants and events of default that are customary for transactions of this nature, including financial ratio covenants that are tested quarterly. We were in compliance with all debt and financial ratio covenants at the end of 2013.

The table below sets out the key features of the Secured Facility:

Key Features of Secured Facility	
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 and repayment	¡ matures and to be repaid in full on November 17, 2018 ¡ provides us 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 U.S. or Canadian dollars up to a total of US$200 million (as a sublimit of the overall commitments)
Interest rates and fees	¡ provides us the option to choose the interest rate on loans denominated in U.S. or Canadian dollars: – either a margin over a U.S. base rate or a margin over LIBOR for U.S. 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) ¡ 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
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 (including obligations to cash management providers, operating lenders and swap providers). All Material Subsidiaries have also guaranteed these obligations. ¡ we currently have a corporate credit rating of *BB+* from Standard & Poor's Ratings Services (**S&P**) and a rating of *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 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 – enter into speculative swap agreements ¡ also includes customary affirmative covenants and events of default ¡ we must also comply with the following financial ratios, each calculated 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) – a minimum interest coverage ratio of 2.75:1

Operating Facilities

We have a $40 million secured operating facility, a US$25 million secured facility for letters of credit, and a US$15 million secured operating facility. At December 31, 2013, 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 $17 million. Availability of the US$25 million secured facility for letters of credit was reduced by US$150,000. 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 banks' 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 during 2010 and 2011. The notes are denominated in either Canadian or U.S. dollars, as indicated below, and all payments on the notes are made in that currency.

	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, 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 rate 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 our ability (or the ability of certain subsidiaries) to make certain payments and distributions
- engage in amalgamations, mergers or consolidations
- make certain dispositions and transfers of assets
- engage in transactions with affiliates.

Each of the 2020 Notes, the 2019 Notes and the 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

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, but faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that 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 seek 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, inability to access domestic or export markets and other 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, 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, such as 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 supply and demand for 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 their drilling contracts with us, 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, lower demand for oilfield services, or lower 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, such as 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 of the markets where

we operate, 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 in Mexico and the Middle East. 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
- restrictions on the repatriation of income or capital
- increases in duties, taxes and governmental royalties
- renegotiation of contracts with governmental entities
- changes in laws and policies governing operations of foreign-based companies
- compliance with anti-corruption and anti-bribery legislation in Canada, the U.S. and other countries
- trade restrictions or embargoes imposed by the U.S. or other countries.

If there is a dispute relating to 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. As such, we may 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 and the U.S., 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 and anti-bribery legislation, trade laws and trade sanctions. The Canadian government, the U.S. Department of Justice, the Securities and Exchange Commission (**SEC**), the U.S. Office of Foreign Assets Control, and similar agencies and authorities in other jurisdictions 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 labour to meet our needs, and this could limit growth. We may also have difficulty finding enough skilled and unskilled labour 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 business 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 new or newer rigs to continue 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 as well as the typically long time from when a decision is made to upgrade or build new equipment to when the equipment is built and placed into service. Excess supply resulting from industry-wide capital expenditures could lead to lower demand for term drilling contracts and for our equipment and services. The additional supply of drilling rigs has served to intensify price competition in the past and could continue to do so. This could lead to lower rates in the oilfield services industry generally and lower utilization of existing rigs. If any of these factors materialize, it would have an adverse effect on our revenues, cash flows, earnings and asset valuation.

Our operations are subject to numerous environmental laws, regulations and guidelines

Our operations are affected by numerous laws, regulations and guidelines relating to the protection of the environment, including those governing the management, transportation and disposal of hazardous substances and other waste materials. These include those relating to spills, releases, emissions and discharges of hazardous substances or other waste materials into the environment, requiring removal or remediation of pollutants or contaminants, and imposing civil and criminal penalties for violations. Some of 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 that are subject to special protective measures, which 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 facilities. 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 if 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.

Environment regulations could have a significant impact on the energy industry

The issue of energy and the environment has created intense public debate in Canada and around the world in recent years. Debate 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 considering more stringent regulation or restriction of hydraulic fracturing, a technology used by most of our customers that involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production.

Increasing regulatory restrictions 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 and the outcome of these developments and their effect on the regulatory landscape and the contract drilling industry is uncertain; however, hydraulic fracturing laws or regulations that cause a decrease in the completion of new oil and natural gas wells and an associated decrease in demand for our services could have a material adverse effect on our operations and financial results.

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 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.

Poor safety performance could lead to lower demand for our services

Standards for accident prevention in the oil and natural 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 health and safety laws, rules, legislation and guidelines which can impose material liability, increase our costs or lead to lower demand for our services.

Relying 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 programs. 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 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.

Acquisitions entail numerous risks and may disrupt our business or distract management

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, or the price of our securities. Acquisitions involve numerous risks, including unanticipated costs and liabilities, difficulty in 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 would also be required to meet certain conditions 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 the benefits, such as operational or administrative synergies, 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.

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, such as 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 essential to our continued success. We cannot guarantee that our rig technology will continue to meet the needs of our customers, especially as rigs age and technology advances, or that our competitors will not develop technological improvements that are more advantageous, timely, or cost effective.

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, making the

insurance prohibitively expensive or uneconomic. Significant events, including 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. Rigs and other necessary equipment cannot cross this 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 be unable to move to another site if the muskeg thaws unexpectedly. Our business activity depends, at least in part, upon the severity and duration of the winter season.

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 our financial performance, debt covenants and obligations, working capital requirements, capital expenditure requirements, tax obligations, the impact of interest rates 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.

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, the 2020 Note Indenture, the 2019 Note Indenture, the 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 favourable terms or at all. If we are unable to service, repay, or refinance our debt, it could have a negative impact on our financial condition and results of operations.

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.

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.

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.

Our debt facilities contain restrictive covenants

The Secured Facility, the 2020 Note Indenture, the 2019 Note Indenture and the 2021 Note Indenture contain a number of covenants which, 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*). Events beyond our control could affect our ability to meet these tests. If we breach 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 or any of the note indentures 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, turnkey contracts 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

Taxation authorities may not agree with the classification of expenses we or our subsidiaries have claimed or may challenge the amount of interest expense deducted. If the taxation authorities successfully challenge our classifications or deductions, 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 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

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

- *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 U.S. dollar, the Canadian dollar equivalent of net earnings from international operations will be negatively affected.

- *Transaction Exposure*

  We have long-term debt denominated in U.S. dollars. We have designated the 2020 Notes, the 2019 Notes and the 2021 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 U.S. dollar, we will incur a foreign exchange gain from the translation of this debt. The vast majority of our international operations are transacted in U.S. dollars or U.S. dollar-pegged currencies. Transactions for our Canadian operations are primarily transacted in Canadian dollars; however, we occasionally purchase goods and supplies in U.S. dollars for our Canadian operations. However, the U.S. dollar denominated 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, the 2020 Notes, the 2019 Notes and the 2021 Notes), or 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 favourable. If we are unable to obtain 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.

Our credit ratings may change

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.

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 reduced dayrates, lower demand for drilling rigs, well service rigs, directional drilling, turnkey jobs, and other wellsite services, or lower 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*).

The price of our common shares can fluctuate

The price of our common shares can fluctuate. Several factors can cause volatility, including 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.

As a foreign private issuer in the U.S., we may 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 United States Exchange Act of 1934 (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, 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 passive foreign investment company (**PFIC**) for U.S. tax purposes. However, because PFIC status is determined annually 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 had a direct or indirect material interest in any transaction affecting us in the three most recently completed financial years or during 2014 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 (**KPMG**) are the auditors of Precision and have confirmed that they are independent with respect to Precision within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations and also that they are independent accountants with respect to Precision under all relevant U.S. professional and regulatory standards.

Material Contracts

Other than contracts we entered into in the ordinary course of business, we had four material contracts at the end of 2013. We entered into these contracts prior to 2013 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*. We filed copies of these contracts, other than the Secured Facility credit agreement, on SEDAR and on EDGAR.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Except as noted below, 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.

In June 2013, a wholly owned subsidiary of Precision lost a tax appeal in the Ontario Superior Court of Justice related to a reassessment of Ontario income tax for the subsidiary's 2001 through 2004 taxation years. Precision has appealed the decision to the Ontario Court of Appeal, and we expect this appeal to be heard in 2014. Management believes it is more likely than not that Precision will prevail on appeal. Should Precision lose on appeal, approximately $55 million of the long-term income tax recoverable related to this issue would be expensed.

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 or her name, place of residence, positions and offices held since first elected to our board, and principal occupation during the previous five years:

William T. Donovan North Palm Beach, Florida, United States Citizenship: USA Director since December 2008 Member: ¡ Audit Committee ¡ Corporate Governance, Nominating and Risk Committee (chair since May 2012)	¡ Currently a private equity investor and a director of several private companies in the U.S., the United Kingdom and Russia ¡ Chairman of the board of Rockland Industrial Holdings, LLC, a privately held Wisconsin entity engaged in manufacturing wood fiooring products for the truck trailer and domestic container industries, from April 2006 to December 2013 ¡ Director of Grey Wolf, Inc. from June 1997 to December 2008, prior to its acquisition by Precision Drilling Trust and his subsequent appointment as a director of Precision 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 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 to 1980, where he specialized in merger and acquisition financing, prior to joining Lubar & Co. ¡ Received a B.Sc. and an 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, investment consultant and corporate director ¡ Senior Vice President, Public Equities and Hedge Funds 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 of the Ontario Teachers' Pension Plan from August 1992 to January 2008 ¡ During his 35-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 advisory board of Kruger Inc. and is a former director of MacDonald, Dettwiler and Associates Ltd., Viterra Inc. and Westaim Corporation ¡ Received a B. Comm. from Laurentian University and an 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

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 ¡ Currently Chairman of the board of TransAlta Renewables Inc. and a 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 Capital Power Income LP where he was the lead director, 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 recipient of its Distinguished Service Award ¡ Received a B. Comm. from the University of Alberta and an MBA from Harvard Business School ¡ Graduate of the Directors' Education Program sponsored by the Institute of Corporate Directors
Catherine Hughes Calgary, Alberta, Canada Citizenship: France/Canada Director since May 2013 Member: ¡ Corporate Governance, Nominating and Risk Committee ¡ Human Resources and Compensation Committee	¡ Previously Executive Vice President, International of Nexen Inc., responsible for all production, development and project activities outside of Canada and global exploration ¡ Vice President, Operational Services, Technology and Human Resources from December 2009 to November 2011 ¡ Vice President, Oil Sands of Husky Energy Inc. from November 2007 to January 2009 prior to joining Nexen ¡ Spent many years with Schlumberger and held key positions in various countries including Italy, Nigeria, Scotland and France and was President of Schlumberger Canada Ltd. for five years, based in Calgary ¡ Currently serves on the board of Statoil ASA ¡ Holds a B.Sc. in electrical engineering from the Institute National des Sciences Appliquées de Lyon, France ¡ Professional Engineer, as designated by the Association of Professional Engineers and Geoscientists of Alberta (APEGA) ¡ Granted the Key Women in Energy Americas award, the Key Women in Energy Global award and the Consumer's Choice Business Woman of the Year award
Stephen J.J. Letwin Toronto, Ontario, Canada Citizenship: Canada Director since December 2006 Member: ¡ Corporate Governance, Nominating and Risk Committee ¡ Human Resources and Compensation Committee	¡ Currently President and Chief Executive Officer 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 and Chief Operating Officer of TransCanada Energy and was Chief Financial Officer of TransCanada Pipelines Limited, Numac (Westcoast Energy) and Encor Energy before joining Enbridge ¡ Currently a director and chairman of OnEnergy Inc. ¡ Previously served as a director of Carmen Energy Inc., Enbridge Energy Company, Inc. and Gas Metropolitan LP ¡ Committed to volunteer leadership throughout his career. Serves as a Patron of UNICEF Alberta, was a former director of YMCA Calgary, served on the board of governors of 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 a B.Sc. (Honours) from McMaster University and an 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	¡ Currently an independent energy consultant and corporate director ¡ Currently serves on the boards of Bill Barrett Corporation, Denbury Natural Resources, Hess Corporation, Hornbeck Offshore Services and the Houston Symphony ¡ Has over 30 years of experience in the energy industry, having retired from ConocoPhillips at the end of 2010 ¡ Senior executive of 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 of 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 ¡ Received a B.A. in chemistry and mathematics from Capital University and a 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 Chief Executive Officer of Dresser, Inc., a leading manufacturer and marketer of highly engineered equipment for the energy industry ¡ Previously served as President and Chief Executive Officer 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 of Sperry-Sun Drilling Services, and Controller of NL Industries ¡ Member of the board of Harvest Natural Resources, White Deer Energy, the Maguire Energy Institute, the World Affairs Council of Dallas/Fort Worth, and is the chairman of the board of regents of Seton Hall University ¡ Member of the American Petroleum Institute and the Society of Petroleum Engineers ¡ Previously served as a director of Rancher Energy Corp. and Wellstream Holdings, Plc ¡ Received a B.Sc. in accounting and an 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 Bonanza Creek Energy Inc., Finning International Inc. and RigNet, Inc. ¡ Appointed a member of the board and a member of the Executive Committee of the International Association of Drilling Contractors 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 of the University of Calgary ¡ Also serves as a member of the advisory board of the Heart and Stroke Foundation of Alberta (since 2009), and as a director of a not-for-profit national sports governing organization ¡ Received a B.Sc. in mechanical engineering from the University of Alberta ¡ Professional Engineer, as designated by the Association of Professional Engineers and Geoscientists 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 President and Chief Executive Officer of BCR Group of Companies from 2001 to 2004 ¡ Within the oil and natural 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 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 a B.Sc. in chemical engineering and an LLB from the University of Alberta

Other Important Information About the Directors

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, except as noted below, 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.

Audit Committee

The Audit Committee currently has five members, all of whom are independent directors:

- Allen R. Hagerman (chair), William T. Donovan, Brian J. 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 to 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. 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 general business experience and education 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. He has a Chartered Accountant designation and an FCA designation from the Institute of Chartered Accountants of Alberta and a 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 the ICD.D designation from the Institute of Corporate Directors. Mr. Hagerman was appointed to the Audit Committee in May 2007.

- William T. Donovan is a private equity investor and a director of several private companies. He was chairman of Rockland Industrial Holdings, LLC of Milwaukee, Wisconsin from April 2006 to December 2013. He 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 investment consultant 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, Public Equities and Hedge Funds of AIMCo. 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 of the Ontario Teachers' Pension Plan from August 1992 to January 2008. Mr. Gibson received a B.Comm. from Laurentian University and an MBA from the University of Toronto and is a Chartered Financial Analyst. He also received the ICD.D designation from the Institute of Corporate Directors. Since 2012, he has been a member of the Corporate Disclosure Policy Committee of the CFA Institute. Mr. Gibson was appointed to the Audit Committee in July 2012.

- 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 was appointed to the Audit Committee in April 2003.

- Robert L. Phillips' experience includes executive level positions at several corporations and as a director of several public corporations including membership on a number of audit committees. Mr. Phillips received a B.Sc. in chemical engineering in 1971 and an 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 their remuneration. 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 us or any of our affiliates, subject to minimum approval level exceptions under applicable law.

In 2003, the committee implemented specific procedures for pre-approving services to be performed by the external auditors and 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 chair of the Audit Committee or other designated member has the authority to pre-approve the services, as long as they are presented to the full committee for ratification at the next scheduled meeting. The Audit Committee receives an update on the status of any pre-approved services at each regular meeting.

Since these procedures were implemented, 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 have been pre-approved by the Audit Committee or a delegated member.

See *Appendix A* for the full text of our 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 auditors, in fiscal 2013 and 2012:

Years ended December 31	2013	2012
Audit fees for professional audit services	**$1,616,000**	$1,561,000
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	**640,000**	495,000
All other fees for translating financial information to French	–	–
Total	**$2,256,000**	$2,056,000

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
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
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, United States	¡ 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, United States	¡ 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 Houston, Texas, United States	¡ 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
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, United States	¡ 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, 2014, our directors and executive officers as a group beneficially owned, or controlled or directed, directly or indirectly, 1,463,602 common shares (approximately 0.5% 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, 2013.

Based on that evaluation, our principal executive officer and principal financial and accounting officer have concluded that our disclosure controls and procedures as of December 31, 2013 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 2013. The evaluation was based on *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (**COSO**) (1992). Based on this evaluation, management concluded that we maintained effective control over our financial reporting as of December 31, 2013.

There were no changes in our internal control over financial reporting in 2013 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, 2013 forms part of our 2013 annual report and is incorporated by reference in this AIF. The MD&A appears on pages 2 to 45 of our 2013 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 SW
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 and shares authorized for issuance under Precision's equity compensation plans) for the annual meeting of shareholders to be held on May 14, 2014.
- Our 2013 annual report containing our annual consolidated financial statements and MD&A for the year ended December 31, 2013.

Copies are available on SEDAR.

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

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Management's Discussion and Analysis

MD&A

Precision Drilling Corporation 2013

This management's discussion and analysis (MD&A) contains information to help you understand our business and financial performance. Information is as of March 7, 2014. 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 3. We adopted IFRS effective January 1, 2011, and restated our 2010 results at that time. Results for 2009 and prior years were prepared in accordance with previous Canadian generally accepted accounting principles (**previous Canadian GAAP**).

The terms *we, us, our, the Corporation* and *Precision* mean Precision Drilling Corporation and our consolidated subsidiaries, and include 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 (U.S.) Private Securities Litigation Reform Act of 1995 (collectively, the forward-looking information and statements).

Forward-looking information and statements are often, but not always, identified by the use of words and phrases such as “anticipate”, “could”, “should”, “can”, “expect”, “seek”, “may”, “intend”, “likely”, “will”, “plan”, “estimate”, “believe” and other similar expressions. In particular, this MD&A includes statements about the following:

- our strategic priorities
- our new-build and upgradable rigs giving us favourable positioning in the market for premium drilling rigs
- continuing improvements in unconventional drilling and completion techniques, allowing customers to realize favourable economics and drive additional investment capital towards oil and liquids-rich natural gas plays
- our capital expenditure plans in 2014 including the amount of funds allocated for expansion capital, rig upgrade capital and sustaining and infrastructure expenditures
- growth opportunities for our Contract Drilling Services land drilling rig fleet both in North America and internationally, including potential for additional rigs going to work in Mexico, two new-builds being delivered to Kuwait in the second quarter and rig additions to our Middle East fleet
- the completion and production work associated with unconventional oil and natural gas plays providing the most profitable growth opportunities for our Completion and Production Services segment
- the additional supply of drilling rigs potentially intensifying price competition and possibly leading to lower rates in the oilfield services industry generally and lower utilization of our existing rigs
- cost increases, delays in delivery due to the strong activity or financial hardship of our suppliers or contractors, or other unforeseen circumstances relating to third parties
- the outcome from the tax reassessment proceedings in Ontario involving one of our subsidiaries
- our expectations regarding our ability to comply with our financial ratio covenants.

The forward-looking information and statements in this MD&A are based on certain factors and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. These include, among other things:

- our expectations regarding our customers’ capital budgets and geographical areas of focus
- the status of current negotiations with our customers
- the demand drivers for natural gas including growing potential of LNG export development
- the economic viability of unconventional oil and gas projects in North America
- the advantages of our premium rigs in respect of drilling in unconventional oil and natural gas plays
- our ability to obtain qualified personnel, equipment and services in a timely and cost-efficient manner
- our ability to operate our business in a safe, efficient and effective manner
- our ability to obtain capital financing
- the ‘retooling’ of the industry-wide fleet having made Tier 3 rigs obsolete in North America
- potential customers’ focus on pricing, rig availability and other considerations when selecting a drilling contractor
- unconventional drilling being the primary opportunity in the North American marketplace and the suitability of our Tier 1 rigs for drilling wells in unconventional oil and natural gas plays
- new or newer rigs continuing to enter markets where we operate
- the inherently challenging cyclical natures of the energy services business
- the general stability of the economic and political environment in the places where we operate
- our knowledge and understanding of applicable tax legislation and court proceedings.

Since forward-looking information and statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking information and statements due to a number of factors and risks including the following:

- volatility in the price and demand for oil and natural gas
- delays or changes in plans with respect to our customers' exploration or production projects or capital expenditures
- liquidity of the capital markets to fund our customers' drilling programs
- the availability of cash flow, debt and equity sources to fund our capital and operating requirements, as needed
- the impact of weather and seasonal conditions on our operations and facilities
- changes in rig technology and our ability to integrate such technologies on a timely and cost-effective basis
- general economic, market or business conditions
- changes in tax, health and safety and environmental legislation including potentially more stringent regulation or restriction of hydraulic fracturing
- the availability of qualified personnel, management or other key inputs
- a decline in our safety performance possibly resulting in lower demand for our services
- fluctuations in foreign exchange, interest rates and tax rates
- operating in foreign countries
- uncertainty in judicial decision-making and proceedings
- 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 our Business*.

You are cautioned that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect our business, operations or financial results are also discussed in our annual information form (**AIF**) on file with the Canadian securities commissions on SEDAR (**www.sedar.com**) and with the U.S. Securities and Exchange Commission on EDGAR (**www.sec.gov**). Our AIF may also be accessed from our corporate website (**www.precisiondrilling.com**).

The forward-looking information and statements contained in this MD&A are made as of the date hereof and Precision undertakes no obligation to update publicly or revise this forward-looking information as a result of new information, future events or otherwise, unless we are required to do so by law.

ADDITIONAL GAAP MEASURES

In this MD&A, we reference additional 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 us, and our investors, an indication of the results from our principal business activities before consideration of how our activities are financed and excluding 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 gives us, and our investors, an indication of the results of our principal business activities before consideration of how our activities are financed and excluding 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 gives us, and our investors, 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.

About Precision

Precision Drilling Corporation provides onshore drilling, 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 in the U.S. We also have operations in Mexico and 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.

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.

- our High Performance, High Value operating model drives efficiency and quality of service
- size and scale provide higher margins and better service capabilities
- liquidity allows us to take advantage of business cycle opportunities
- capital structure provides long-term stability and flexibility

Vision

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

Strategic Priorities

1. **Execute our High Performance, High Value strategy** – Invest in Precision's physical and human capital infrastructure to advance field level professional development, provide industry leading service to customers and promote safe operations. Continue to measure and benchmark performance with a view to exceeding the high standards we set.

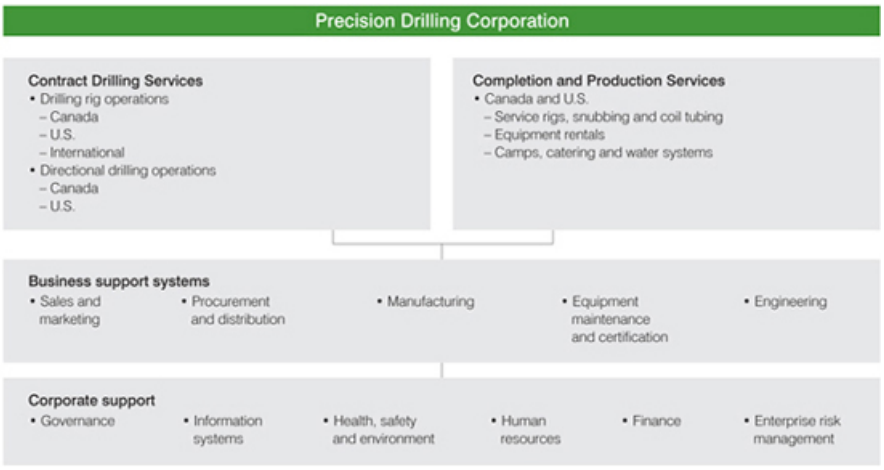
2. **Leverage our scale in operations** – Utilize established systems to promote consistent and reliable service and to improve operating efficiencies across all geographies and service lines.

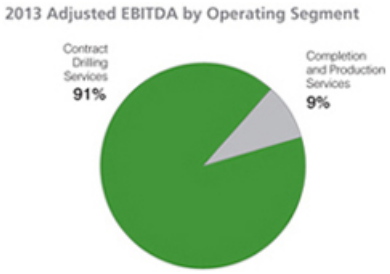
3. **Execute on existing organic growth opportunities** – Deliver new-build and upgraded rigs to customer contracts, expand international activity in existing operating regions and grow our Canadian LNG drilling leadership position. Be a recognized leader in the integrated directional drilling transformation.

4. **Increase returns for our investors.**

Two Business Segments

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







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 America, servicing approximately 23% of the active land drilling market in Canada and 5% of the active U.S. land drilling market. We also have an international presence with operations in Mexico and the Middle East.

At December 31, 2013, our Contract Drilling Services segment consisted of:

- 327 land drilling rigs, including:
  - 187 in Canada
  - 127 in the U.S.
  - 8 in Mexico
  - 3 in Saudi Arabia
  - 2 in the Kurdistan region of northern Iraq
- capacity for approximately 88 concurrent directional drilling jobs 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 Mexican operations.

Drilling Rigs at December 31, 2013

Horsepower	< 1000	1000-1500	>1500	Total
Tier 1	96	101	3	200
Tier 2	63	21	19	103
PSST	15	4	5	24
Total	174	126	27	327

Geographic location	Canada	U.S.	International	Total
Tier 1	110	87	3	200
Tier 2	62	31	10	103
PSST	15	9	–	24
Total	187	127	13	327







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, 2013, our Completion and Production Services segment consisted of:

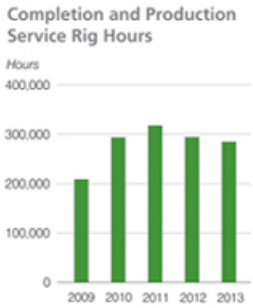
- 191 well completion and workover service rigs, including:
  - 184 in Canada
  - 7 in the U.S.
- 19 snubbing units, including:
  - 17 in Canada
  - 2 in the U.S.
- 12 coil tubing units, including:
  - 4 in Canada
  - 8 in the U.S.
- approximately 3,800 oilfield rental items including surface storage, small-flow wastewater treatment, power generation, and solids control equipment primarily in Canada
- 235 wellsite accommodation units in Canada and 67 in the U.S.
- 50 drilling camps and three base camps in Canada and two drilling camps and one base camp in the U.S.
- 10 large-flow wastewater treatment units, 24 pump houses and seven potable water production units in Canada.

Well Servicing Fleet as at December 31

Type of Service Rig	Horsepower	2009	2010	2011	2012	**2013**
Singles:						
Freestanding mobile	150-400	94	94	90	90	**90**
Doubles:						
Mobile	250-550	28	25	19	19	**19**
Freestanding mobile	200-550	30	35	40	40	**40**
Skid	300-860	30	28	22	22	**22**
Slants:						
Freestanding	250-400	18	18	18	19	**20**
Total service rigs		200	200	189	190	**191**
Snubbing units		20	20	18	19	**19**
Coil tubing units		–	–	–	5	**12**
Total service rigs, snubbing units and coil tubing units		220	220	207	214	**222**







2013 Highlights and Outlook

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

Financial Highlights

Year ended December 31 *(thousands of dollars, except where noted)*	2013	% increase/ (decrease)	2012	% increase/ (decrease)	2011	% increase/ (decrease)
Revenue	**2,029,977**	**(0.5)**	2,040,741	4.6	1,951,027	36.5
Adjusted EBITDA	**638,833**	**(4.8)**	670,792	(3.5)	695,064	59.8
Adjusted EBITDA % of revenue	**31.5%**		32.9%		35.6%	
Net earnings	**191,150**	**265.1**	52,360	(72.9)	193,477	344.4
Cash provided by operations	**428,086**	**(32.6)**	635,286	19.2	532,772	74.0
Funds provided by operations	**461,973**	**(22.9)**	598,812	1.1	592,388	46.6
Investing activities						
Capital spending						
Expansion	**282,145**	**(52.7)**	596,194	30.9	455,302	539.7
Upgrade	**141,132**	**8.5**	130,094	(13.2)	149,811	174.0
Maintenance and infrastructure	**112,527**	**(20.6)**	141,769	16.9	121,244	142.3
Proceeds on sale	**(13,372)**	**(57.4)**	(31,423)	96.6	(15,983)	30.4
Net capital spending	**522,432**	**(37.6)**	836,634	17.8	710,374	334.1
Business acquisitions (net of cash acquired)	**–**	**(100.0)**	25	(100.0)	92,886	n/m
Earnings per share *($)*						
Basic	**0.69**	**263.2**	0.19	(72.9)	0.70	337.5
Diluted	**0.66**	**266.7**	0.18	(73.1)	0.67	346.7
Dividends per share *($)*	**0.21**	**320.0**	0.05	n/m	–	–

n/m – calculation not meaningful.

Operating Highlights

Year ended December 31	2013	% increase/ (decrease)	2012	% increase/ (decrease)	2011	% increase/ (decrease)
Contract drilling rig fleet	**327**	**1.9**	321	(4.7)	337	(5.1)
Drilling rig utilization days						
Canada	**30,530**	**(5.6)**	32,352	(14.8)	37,970	21.8
U.S.	**30,268**	**(12.5)**	34,597	(8.7)	37,887	16.8
International	**3,555**	**70.4**	2,086	197.2	702	16.6
Service rig fleet	**222**	**3.7**	214	3.4	207	(5.9)
Service rig operating hours	**283,576**	**(3.8)**	294,681	(7.2)	317,418	7.9

Financial Position and Ratios

Year ended December 31 *(thousands of dollars, except ratios)*	**2013**	2012	2011
Working capital	**305,783**	278,021	610,429
Working capital ratio	**1.9**	1.7	2.4
Long-term debt	**1,323,268**	1,218,796	1,239,616
Total long-term financial liabilities	**1,355,535**	1,245,290	1,267,040
Total assets	**4,579,123**	4,300,263	4,427,874
Enterprise value[1]	**3,919,763**	3,213,406	3,528,046
Long-term debt to long-term debt plus equity	**0.36**	0.36	0.37
Long-term debt to cash provided by operations	**3.09**	1.92	2.33
Long-term debt to enterprise value	**0.34**	0.38	0.35

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

2013 OVERVIEW

Net earnings in 2013 were $191 million, or $0.66 per diluted share, compared to $52 million or $0.18 per diluted share in 2012. The 2012 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 in 2013 was $2,030 million, 1% lower than 2012, mainly due to lower utilization days in North America, although this loss was partially offset by improved drilling rig revenue per day in both Canada and the United States and growth in international operations. Contract Drilling Services revenue was down less than 1%, while revenue from Completion and Production Services was down 1%. Our international drilling activity increased 70% with an average of 10 rigs working in 2013 compared to six in 2012.

Adjusted EBITDA in 2013 was $639 million, 5% lower than 2012. Our adjusted EBITDA margin was 31%, compared to 33% in 2012. The decrease in adjusted EBITDA margin was mainly the result of reduced margin in the Completion and Production Services segment. Lower activity, costs associated with starting up in the United States and fixed costs all contributed to lower margin in our Completion and Production Services segment. EBITDA margin for the year in our Contract Drilling Services segment was 38%, in line with the prior year. Our portfolio of term customer contracts, a scalable operating cost structure, and economies achieved through vertical integration of the supply chain all help us manage our adjusted EBITDA margin.

North American industry activity was down from 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 2013, we increased our quarterly dividend to $0.06 per common share.

Outlook

Contracts

Our strong portfolio of term customer contracts provides a base level of activity and revenue and, as of March 7, 2014, we had term contracts in place for an average of 101 rigs: 51 in Canada, 43 in the United States and seven internationally for 2014. In Canada, term contracted rigs normally generate 250 utilization days per rig year because of the seasonal nature of wellsite access. In most regions in the United States and internationally, term contracts normally generate 365 utilization days per rig year. In 2013, approximately 58% of our total contract drilling revenue was generated from rigs under term contract.

Pricing, Demand and Utilization

The demand for energy has been rising with the improvement in the global economic situation, and per capita energy consumption has increased in many 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, have been depressed, reaching 10-year lows in 2012 before recovering slightly in 2013 to average US$3.73 per MMBtu at Henry Hub. Lower natural gas prices have persisted due to increased production from unconventional resource development, higher than average storage levels, and the lack of an export market from North America. Despite the industry-wide decline in natural gas drilling activity, production remained stable and kept prices low.

Natural gas demand largely depends on the weather. Moderate North American winter temperatures in 2011 and 2012 hampered overall demand, but colder weather at the end of 2013 resulted in near-term reduction of inventories and caused spot prices to rise. Other demand drivers, however, such as natural gas fired power generation, industrial applications and transport, have shown positive growth over the past several years driven by a preference for natural gas over coal, favourable regulation and lower prices. As well, the growing potential of liquefied natural gas (**LNG**) export development in both Canada and the U.S. could serve as a catalyst for natural gas directed drilling activity over the medium to long term.

Industry wide, drilling utilization has declined year-over-year in North America; however, demand for higher specification Tier 1 drilling assets has remained strong, supporting improved dayrates charged to customers. We have deployed 69 new-build Tier 1 Super Series drilling rigs since the beginning of 2010. As at March 7, 2014 we had a total fleet of 203 Tier 1 drilling rigs, and we have additional upgradable rigs within our fleet, which we believe favourably positions us in the market for premium drilling rigs.

The oil rig count at March 7, 2014 was 8% higher in the U.S. than it was a year ago, and 14% lower in Canada. The overall North American land oil directed rig count on March 7, 2014 was more than five times higher than it was on March 6, 2009, supported by unconventional oil and liquids-rich natural gas drilling in plays such as Bakken, Cardium, Montney, Duvernay, Eagle Ford, Granite Wash, Niobrara and Permian. As exploration and production companies continue to improve unconventional oil drilling and completion techniques, we expect that the favourable economics that our customers realize will drive additional investment capital toward these unconventional plays, supporting continued drilling activity, and especially demand for Tier 1 rigs.

International

We currently have 13 rigs in international locations, in Mexico and the Middle East, and expect our active rig count to grow over the next two quarters as two new-build drilling rigs on long-term contract for the Kuwait market are delivered in the second quarter. Additionally, we see potential for additional rigs going to work in Mexico in 2014 and potential rig additions to our Middle East fleet.

Upgrading the Fleet

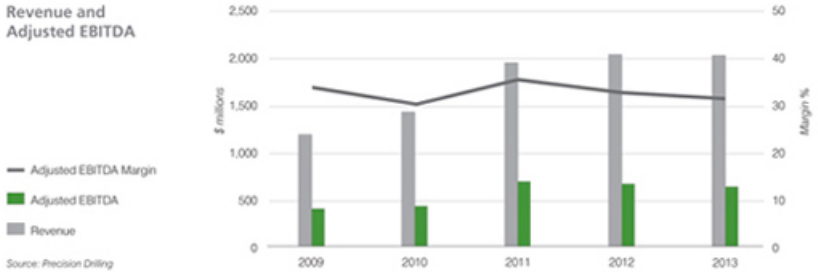
We and some of our competitors have been upgrading the drilling rig fleet by building new rigs and upgrading existing rigs. We believe this 'retooling' of the industry-wide fleet has made Tier 3 rigs virtually obsolete in North America. In the fourth quarter of 2012, we decommissioned 42 Tier 3 rigs and 10 Tier 2 rigs from our fleet, exiting the Tier 3 contract drilling business. 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 2014 to be approximately $582 million ($545 million in the Contract Drilling Services segment and $37 million in the Completion and Production Services segment):

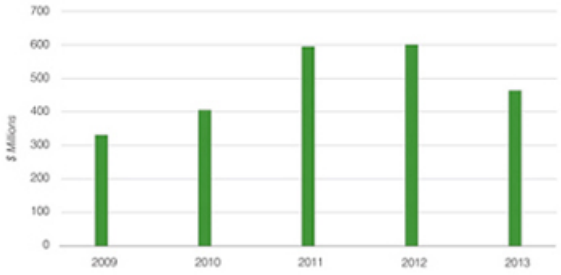
- $268 million for expansion capital, which includes:
  - six new-build rigs for the Canadian market and two for the U.S.
  - one new-build rig that will only be completed once a firm customer contract is secured
  - the costs to complete two new-build rigs going to Kuwait
  - new equipment in our Completion and Production Services segment and
  - long-lead items.
- $119 million for upgrade capital for 15 to 19 upgrades, four of which represent the completion of the 2013 rig upgrade program
- $195 million for sustaining and infrastructure expenditures, which is based on currently anticipated activity levels, and includes the cost to consolidate and upgrade our operations facility in Nisku, Alberta. The Nisku facility will support Canadian operations for several decades. The portion of the 2014 budget allocated to this facility is approximately $30 million.

Revenue and Adjusted EBITDA



Source: Precision Drilling

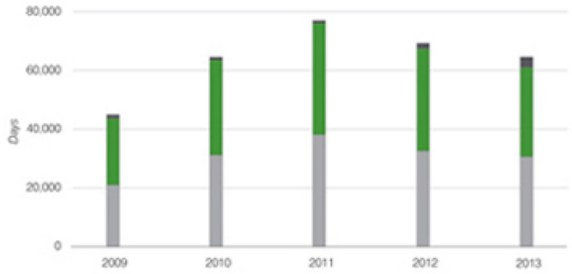
Funds From Operations



Note: 2009 was prepared under previous Canadian GAAP

Source: Precision Drilling

Drilling Utilization Days



Source: Precision Drilling

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 end price for their products: crude oil, natural gas, and natural gas liquids.

We depend on oil and natural gas exploration and production companies to contract our services as part of their development activities. The economics of their business are dictated by the current and expected future margin between their finding and development costs and the eventual market price for the commodities they produce.

Commodity Prices

Our customers' 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, so it is generally priced in a global market that is influenced by an array of economic and political factors. 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.

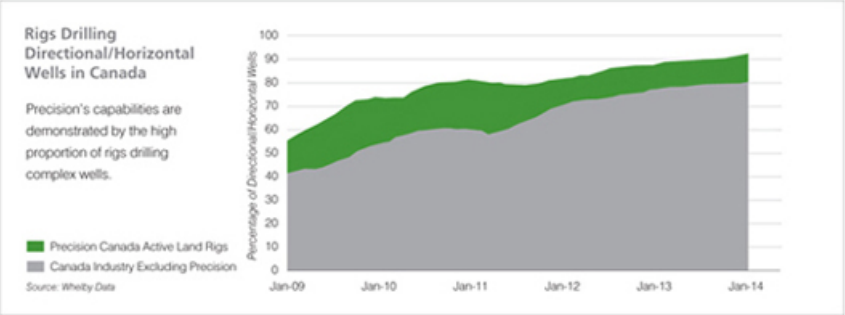
Natural gas and natural gas liquids continue to be priced regionally. In 2013, natural gas prices remained at depressed levels for most of the year as supplies of unconventional natural gas, particularly in North America, are keeping markets well supplied. The onset of colder weather late in 2013 and early 2014 increased demand for natural gas and caused spot prices to rise at the beginning of 2014. Overall, natural gas prices remain depressed compared to oil, supporting the projected growth in worldwide natural gas consumption.



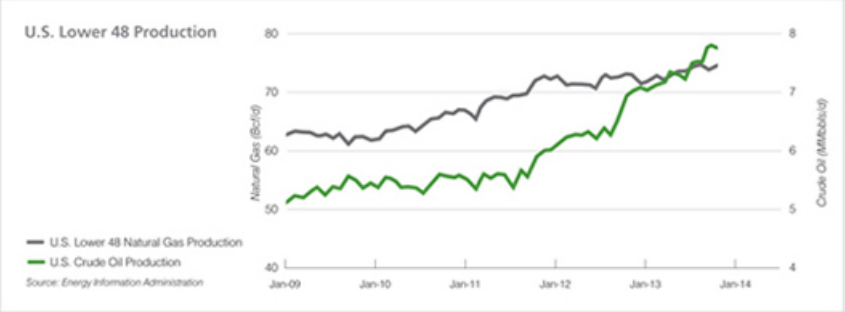
New Technology

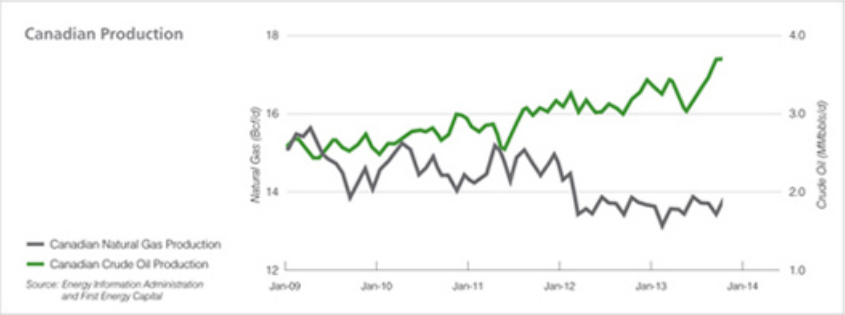
Technological advancements in fracturing, stimulation and horizontal drilling have brought about a shift in development from conventional to unconventional natural gas and oil reservoirs. This is giving companies cost-effective access to more complex wells in North America, in existing basins and in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

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



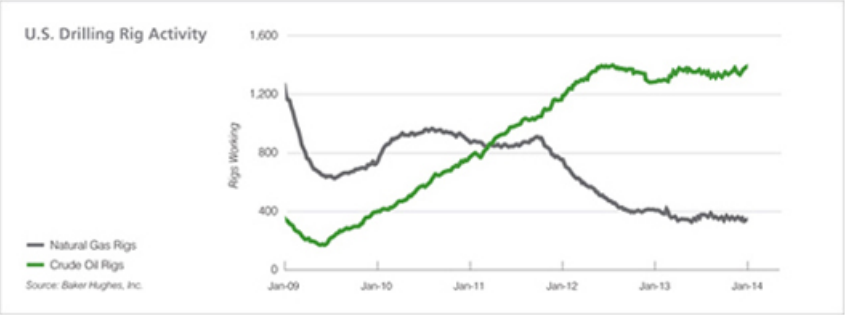
These technical innovations have been a major factor in the increase in natural gas production in the U.S., which is becoming less reliant on Canada as a source of natural gas. Natural gas production in Canada has been declining because of lower natural gas directed drilling due to pricing pressure and Canada's lack of an export market other than the U.S.





Drilling Activity

The graphs below show that, since 2010, drilling activity in the U.S. 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 U.S.





A COMPETITIVE OPERATING MODEL

The contract drilling business is highly competitive, with numerous industry participants. We compete for long-term drilling contracts that are often awarded based on a competitive bid process.

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 employing 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's efficient and reduces costs
- having equipment that's 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, such as multi-well pad capability and mobility between wells, capture incremental time savings during the drilling process.

The versatile Precision Super Single design features technical innovations in safety and drilling efficiency for drilling slant or directional wells on single or multiple well pad locations in shallow to medium depth well applications. Precision Super Single rigs use extended length tubulars, an 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, ST-1500 and ST-3000) 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, while a computerized electronic auto driller feature precisely controls weight, rotation and torque on the drill bit. These rigs use extended length drill pipe and have an integrated top drive, automated pipe handling with iron roughnecks, and automated control.

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 the most active drilling regions in North America, including all the major unconventional oil and natural gas basins.

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 located spare equipment, and an in-house supply chain.

We minimize non-productive time (move, rig-up and rig-out time) by utilizing walking and skidding systems, reducing the number of move loads per rig, having lighter move loads, 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 these measures 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. 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 U.S.
- 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.
- Investment returns – total shareholder return performance against an industry peer group, including dividends, over a three year period. Measured against predetermined competitors in the established 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.

High Performance Rig Fleet

Our fleet of drilling rigs is well positioned to address the unconventional drilling programs of our customers. The vast majority of our drilling rigs have been designed or significantly upgraded to drill horizontal wells. With a breadth of horsepower types and drilling depth capabilities, our large fleet can address every type of onshore unconventional oil and natural gas drilling in North America.

In 2013, we high-graded our drilling rig fleet by:

- adding seven Tier 1 new-build drilling rigs
- upgrading 19 drilling rigs – about a quarter of these were Tier upgrades.

As at December 31, 2013, 93% of our 327 drilling rigs were Tier 1 or Tier 2 rigs.

Tier 1 – 200 drilling rigs Rigs are better suited to meet the challenges of complex customer requirements for resource exploitation in North American shale and unconventional plays	High performance Super Series rigs, innovative in design, capable of drilling directionally or horizontally, 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 – 103 drilling rigs 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 (Precision seasonal, stratigraphic and turnkey) – 24 drilling rigs 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 24 rigs retained for seasonal, stratification 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 service rigs provide completion, workover, abandonment, well maintenance, high pressure operations and critical sour gas well work, and well re-entry preparation across the Western Canada Sedimentary Basin, Texas and the northern U.S. Service rigs are supported by three field locations in Alberta, two in Saskatchewan, and one in each of Manitoba, British Columbia, North Dakota, Texas, and Pennsylvania.

Snubbing units complement 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.

Coil tubing units have the ability to service horizontal wells by pushing the tubing rather than relying on gravity. Coil tubing often works more effectively in the unconventional horizontal wells that are becoming more common. We began using our first coil tubing unit in the first quarter of 2012 and by the end of 2013 we had 12 units operating.

Ancillary Equipment and Services

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 due to equipment failure.

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 U.S.

Precision Rentals supplies customers with an inventory of specialized equipment and wellsite accommodations. Precision Camp Services 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 Precision Camp Services and other camp facilities.

Systematic Maintenance

We consistently reinvest capital to sustain existing property, plant and equipment. Also we match equipment repair and maintenance expenses to activity levels under our maintenance and certification programs.

We use computer systems to track key preventative maintenance indicators for major rig components, record equipment performance history, schedule equipment certifications, reduce downtime, and better manage our assets.

We have a continuous maintenance program for essential elements, such as 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 is typically performed at the request of a customer and includes a term contract. 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 industry manpower in peak operating periods. We rely heavily on our safety record, investment in employee development, and reputation to attract and retain employees. Our people strategies 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. In the U.S., these functions are managed to align with regional labour and customer service requirements. In 2008, we launched Toughnecks (**www.toughnecks.com**), our highly successful 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 functions.

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 also 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 core 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, because they are leading indicators of the potential for a more serious incident. In 2013, 252 of our drilling rigs and 208 of our service rigs achieved Target Zero. We continue to embrace technological advancements that make operations safer.

Together with our customers, we are continuously looking for opportunities to reduce our consumption of non-renewable resources and reduce our environmental footprint. We use technology to minimize 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 this vision by defining and measuring our results against strategic priorities we establish at the beginning of every year.

Strategic Priorities	2013 Results	Plans for 2014
Execute our High Performance, High Value strategy Continue to drive execution excellence in our people, internal systems and infrastructure. Support our world class safety, training and development programs. Upgrade and consolidate our Nisku operations and leverage our investments in our Houston and Red Deer Technology Centres.	Improved safety performance in both operating segments in 2013, matching the best results in our history. Began construction of our Nisku Centre.	Invest in our physical and human capital infrastructure to advance field level professional development, provide industry leading service to customers and demand safe operations. Leverage our scale of operations and utilize established systems to promote consistent and reliable service. Increase returns for our investors.
Execute on existing organic growth opportunities 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.	Delivered seven new-build Super Series rigs to customers on term contracts and upgraded 19 existing drilling rigs to higher specification assets under term contracts. Expanded international operations with rig additions to Mexico and the Middle East. Expanded service lines in Completion and Production Services by adding higher end rental offerings and expanding our coil tubing business. Expanded penetration into northern U.S. markets.	Deliver new-build and upgraded drilling rigs to customer contracts, expand international activity in existing locations and grow our LNG drilling leadership position. Be a recognized leader in the integrated directional drilling transformation. Grow our U.S. presence in Completion and Production Services.
Build our brand Uphold our reputation and market breadth in North America while strengthening our presence in select oilfield markets internationally.	Delivered strong Canadian and U.S. dayrates throughout 2013 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 improving our visibility 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 marketplace. Unconventional resource development requires advanced Tier 1 drilling rigs and other highly developed services that facilitate 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 OUR BUSINESS

Our key business risks are summarized below. You'll find more information and other risks to our business in our annual information form, which is on file with the Canadian securities commissions on SEDAR (**www.sedar.com**) and with the U.S. Securities and Exchange Commission on EDGAR (**www.sec.gov**).

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.

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 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. Rigs and other necessary equipment cannot cross this 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 be unable to move to another site if the muskeg thaws unexpectedly. Our business results depend partly on how long the winter drilling season lasts.

Competition

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.

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 new or newer rigs to continue 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 as well as the typically long lead time required from when a decision is made to upgrade or build new equipment to 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 for our equipment and services. The additional supply of drilling rigs has intensified price competition in the past and could continue to do so, possibly leading to lower rates in the oilfield services industry generally and lower utilization of existing rigs. If any of these factors materialize, 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, such as 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 have an experienced internal engineering department that works closely with operations and marketing on equipment design and improvements. We cannot assure, 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

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. We may not be able to find enough skilled labour to meet our needs, and this could limit growth. We may also have difficulty finding enough skilled and unskilled labour 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. To retain and attract quality staff, we focus on providing a safe and productive work environment, opportunity for advancement, and added wage security.

Relying 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.

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

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 for 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

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.

Standards for accident prevention in the oil and natural 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.

Our operations are affected by numerous laws, regulations and guidelines relating to spills, releases, emissions, and discharges of hazardous substances or other waste materials into the environment. These may require removal or remediation of pollutants or contaminants, and can impose 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 this 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 facilities. 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 we may incur 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.

The issue of energy and the environment has created intense public debate in Canada, the U.S. and around the world in recent years, and it is likely to continue to be a focus area for the foreseeable future, which 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 considering 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. The outcome of these developments and their effect on the regulatory landscape and the contract drilling industry is uncertain.

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 reduced dayrates, lower demand for drilling rigs, well service rigs, directional drilling, turnkey jobs, and other wellsite services, or lower 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, the 2019 Notes, the 2020 Notes, the 2021 Notes, and other debt agreements we have in the future, and on our credit ratings. 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 favourable terms or at all. If we are unable to service, repay 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 revenues, expenses, assets and liabilities denominated in currencies other than the Canadian dollar (mostly in U.S. dollars and currencies that are pegged to the U.S. dollar). This 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 revenues 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 U.S. 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 U.S. dollars. We have designated our U.S. dollar denominated unsecured senior notes (the 2020 Notes and the 2021 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 U.S. dollar, we will incur a foreign exchange gain from the translation of this debt. Most of our international operations are transacted in U.S. dollars or U.S. 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 U.S. dollars. However, U.S. dollar denominated transactions and foreign exchange exposure in our Canadian operations 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 in Mexico and the Middle East. 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
- restrictions on the repatriation of income or capital
- increases in duties, taxes and governmental royalties
- renegotiation of contracts with governmental entities
- changes in laws and policies governing operations of foreign-based companies
- restrictions under anti-corruption and anti-bribery legislation in Canada, the U.S. and other countries
- trade restrictions or embargoes imposed by the U.S. or other countries.

If there is a dispute relating to 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.

2013 Results

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

Consolidated Statements of Earnings Summary

Year ended December 31 *(thousands of dollars)*	**2013**	2012	2011
Revenue			
Contract Drilling Services	**1,719,910**	1,725,240	1,632,037
Completion and Production Services	**323,353**	326,079	330,225
Inter-segment elimination	**(13,286)**	(10,578)	(11,235)
	2,029,977	2,040,741	1,951,027
Adjusted EBITDA			
Contract Drilling Services	**653,664**	649,281	665,389
Completion and Production Services	**61,032**	93,554	104,252
Corporate and other	**(75,863)**	(72,043)	(74,577)
	638,833	670,792	695,064
Depreciation and amortization	**333,159**	307,525	251,483
Loss on asset decommissioning	**–**	192,469	114,893
Operating earnings	**305,674**	170,798	328,688
Impairment of goodwill	**–**	52,539	–
Foreign exchange	**(9,112)**	3,753	(23,674)
Finance charges	**93,248**	86,829	111,578
Earning before income taxes	**221,538**	27,677	240,784
Income taxes	**30,388**	(24,683)	47,307
Net earnings	**191,150**	52,360	193,477

Results by Geographic Segment

Year ended December 31 *(thousands of dollars)*	**2013**	2012	2011
Revenue			
Canada	**1,002,199**	1,053,966	1,071,526
U.S.	**901,246**	936,113	866,776
International	**137,681**	64,017	22,994
Inter-segment elimination	**(11,149)**	(13,355)	(10,269)
	2,029,977	2,040,741	1,951,027
Total assets			
Canada	**2,082,958**	2,119,891	2,252,084
U.S.	**2,006,519**	1,913,810	2,027,676
International	**489,646**	266,562	148,114
	4,579,123	4,300,263	4,427,874

2013 Compared to 2012

Net earnings in 2013 were $191 million or $0.66 per diluted share, compared to $52 million or $0.18 per diluted share in 2012. For 2012, 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.

Revenue was $2,030 million, 1% lower than 2012. Improved pricing in Canada and increased activity internationally were offset by lower activity levels in both the Contract Drilling Services and Completion and Production Services segments.

Adjusted EBITDA in 2013 was $639 million, 5% lower than 2012. Lower activity levels were partially offset by higher average pricing in both operating segments due to changes in product mix. Activity, as measured by drilling utilization days, dropped 6% in Canada and 13% in the U.S. compared to 2012 but increased 70% internationally.

The volatile global environment and low natural gas prices in much of 2013 reduced utilization for us and for the industry in general.

Average Oil and Natural Gas Prices

	2013	2012	2011
Oil			
West Texas Intermediate *(per barrel)*	**US$98.02**	US$94.13	US$95.02
Natural gas			
Canada			
AECO *(per MMBtu)*	**$3.18**	$2.39	$3.62
U.S.			
Henry Hub *(per MMBtu)*	**US$3.73**	US$2.75	US$3.98

Key Statistics

There were 10,903 wells drilled in western Canada in 2013, 1% more than the 10,753 drilled in 2012. Despite the increases, total industry drilling operating days was 3% lower than 2012, at 120,043. Average industry drilling operating days per well was 11.0 compared to 11.6 in 2012. Average depth of a well increased 7%. The decrease in days per well while average depth increased reflects the use of top tier rigs and greater industry experience with unconventional drilling.

Approximately 35,700 wells were started onshore in the U.S., 3% less than the approximately 36,800 wells started there in 2012.

Fleet

We and many of our competitors have been in the process of upgrading the drilling rig fleet by building new rigs and upgrading existing ones. In 2013, we added 7 new-build drilling rigs and upgraded another 19. 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 have exited the Tier 3 contract drilling business but retained 24 drilling rigs for seasonal, stratification and turnkey drilling work (the 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. Goodwill in 2013 remains unchanged except for foreign currency translation. We recognized a $53 million goodwill impairment charge in 2012 (the goodwill attributable to our Canadian directional drilling operations), because of the outlook for natural gas pricing and the reduction in natural gas drilling in Canada.

Foreign Exchange

We recognized a foreign exchange gain of $9 million because the Canadian dollar weakened in value against the U.S. dollar and this affected the net U.S. dollar denominated monetary position in our Canadian dollar-based companies.

Finance Charges
Finance charges were $93 million, an increase of $6 million compared with 2012 primarily due to the increase in average outstanding debt in Canadian dollars.

Income Taxes
Income taxes were $30 million, $55 million higher than in 2012 mainly because operating earnings were higher.

In June 2013, a wholly owned subsidiary of Precision lost a tax appeal in the Ontario Superior Court of Justice related to a reassessment of Ontario income tax for the subsidiary's 2001 thru 2004 taxation years. Precision has appealed the decision to the Ontario Court of Appeal and we expect this appeal to be heard in 2014. Despite the decision in the Superior Court, management believes it is more likely than not that Precision will prevail on appeal. Should Precision lose on appeal, approximately $55 million of the long-term income tax recoverable related to this issue would be expensed.

2012 Compared to 2011
Net earnings in 2012 were $52 million or $0.18 per diluted share, compared to $193 million or $0.67 per diluted share in 2011. Revenue was $2,041 million, 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.

Adjusted EBITDA in 2012 was $671 million, 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.

Key Statistics
There were 10,753 wells drilled in western Canada in 2012, 9% fewer than the 11,832 drilled in 2011. Approximately 38,600 wells were started onshore in the U.S., 2% more than the approximately 37,800 wells started there in 2011.

In Canada, 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 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.

Foreign Exchange
We recognized a foreign exchange loss of $4 million because the Canadian dollar strengthened in value against the U.S. dollar and this affected the net U.S. dollar denominated monetary position in our Canadian dollar-based companies.

Finance Charges
Finance charges were $87 million, $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 in 2011 mainly because operating results were lower.

CONTRACT DRILLING SERVICES

Financial Results

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

Year ended December 31 *(thousands of dollars, except where noted)*	**2013**	**% of revenue**	2012	% of revenue	2011	% of revenue
Revenue	**1,719,910**		1,725,240		1,632,037	
Expenses						
Operating	**1,019,156**	**59.3**	1,036,553	60.1	931,062	57.0
General and administrative	**47,090**	**2.7**	39,406	2.3	35,586	2.2
Adjusted EBITDA	**653,664**	**38.0**	649,281	37.6	665,389	40.8
Depreciation and amortization	**292,217**	**17.0**	271,993	15.8	219,194	13.4
Loss on asset decommissioning	**–**	**–**	192,469	11.1	113,366	7.0
Operating earnings	**361,447**	**21.0**	184,819	10.7	332,829	20.4

2013 Compared to 2012

Revenue from Contract Drilling Services was $1,720 million, slightly lower than 2012, mainly due to lower utilization days in North America, partially offset by higher drilling rig revenue per day in both Canada and the U.S. and growth in our international drilling operations.

Operating expenses were 59% of revenue, compared to 60% in 2012, mainly because of improved results from our international drilling business. Operating expenses per day were 3% higher in Canada and 1% lower in the U.S. mainly because of higher crew labour-related costs offset in the U.S. by lower turnkey activity. General and administrative expense was higher because of the growth in our international business.

Operating earnings were $361 million, 96% higher than 2012, and equated to 21% of revenue compared to 11% in 2012. Included in 2012 was a loss on asset decommissioning charge of $192 million on the decommissioning of 52 drilling rigs in the fourth quarter.

Capital expenditures in 2013 were $447 million:

- $208 million – to expand the underlying asset base
- $141 million – to upgrade existing equipment
- $98 million – on maintenance and infrastructure.

Most of the expansion capital was for our rig build program; seven of these were completed and placed into service by December 31, 2013.

Operating Statistics

Year ended December 31	2013	% increase/ (decrease)	2012	% increase/ (decrease)	2011	% increase/ (decrease)
Number of drilling rigs (year-end)	**327**	**1.9**	321	(4.7)	337	(5.1)
Drilling utilization days (operating and moving)						
Canada	**30,530**	**(5.6)**	32,352	(14.8)	37,970	21.8
U.S.	**30,268**	**(12.5)**	34,597	(8.7)	37,887	16.8
International	**3,555**	**70.4**	2,086	197.2	702	16.6
Drilling revenue per utilization day						
Canada *(Cdn$)*	**22,108**	**5.1**	21,030	14.0	18,442	14.3
U.S.*(US$)*	**23,575**	**(0.5)**	23,696	9.0	21,744	14.7
Drilling statistics (Canadian operations only)						
Wells drilled	**3,211**	**4.1**	3,085	(13.5)	3,566	11.6
Average days per well	**8.4**	**(10.6)**	9.4	(1.1)	9.5	8.0
Metres drilled *(hundreds)*	**5,576**	**6.6**	5,233	(8.5)	5,717	11.7
Average metres per well	**1,736**	**2.4**	1,696	5.8	1,603	0.0

Canadian Drilling

Revenue from Canadian drilling was down $5 million or 1% from 2012. Drilling rig activity, as measured by utilization days, was down 6%.

In 2013, the industry drilled 10,903 wells in western Canada, 1% more than in 2012. Industry operating days decreased 3% to 120,043. These were the result of lower activity as customer demand for oil and liquids-rich natural gas related drilling activity declined.

Adjusted EBITDA was $334 million, in line with $332 million in 2012, as higher pricing offset the decline in drilling activity.

Depreciation expense for the year was $5 million lower than 2012 because of lower utilization of our rigs and a recognized loss on sale of assets in 2012.

Drilling Statistics – Canada

In 2013, we completed two new-build rigs and decommissioned one, bringing our Canadian 2013 year-end net rig count to 187 (up by one).

The industry drilling rig fleet decreased slightly – there were approximately 819 rigs at the end of 2013 compared to 822 at the end of 2012. Our operating day utilization was 39% (2012 – 40%), compared to industry utilization of 40% (2012 – 42%).

Our average dayrates in Canada increased 5% in 2013 because we had a favourable rig mix and demand for our Tier 1 rigs was strong.

U.S. Drilling

Revenue from U.S. drilling was lower than 2012 by US$106 million or 13%. Drilling rig activity, as measured by utilization days, was down 13%.

Adjusted EBITDA was US$270 million, 12% lower than US$308 million in 2012, mainly because of lower industry activity due to weak natural gas economics.

Depreciation expense for the year was $21 million lower than 2012 because of lower utilization of our drilling rigs and higher losses on sale of assets in 2012.

Drilling Statistics – U.S.

In 2013, we completed five new-build rigs, and transferred five rigs to our international fleet, leaving our U.S. year-end net rig count unchanged at 127. In 2013, we averaged 83 rigs working, a 13% decrease from 2012.

Our average dayrates in the U.S. decreased 1% in 2013 because we had fewer average rigs working turnkey jobs offset by a better rig mix as demand for our Tier 1 rigs was strong. We also added new-build Tier 1 rigs and upgraded rigs to the fleet.

Drilling Statistics – U.S.

	2013		2012	
	Precision	**Industry**[1]	Precision	Industry[1]
Average number of active land rigs for quarters ended:				
March 31	**81**	**1,706**	104	1,947
June 30	**80**	**1,710**	97	1,924
September 30	**81**	**1,709**	90	1,855
December 31	**90**	**1,697**	87	1,759
Annual average	**83**	**1,705**	95	1,871

1 Source: Baker Hughes

COMPLETION AND PRODUCTION SERVICES

Financial Results

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

Year ended December 31 *(thousands of dollars, except where noted)*	**2013**	**% of revenue**	2012	% of revenue	2011	% of revenue
Revenue	**323,353**		326,079		330,225	
Expenses						
Operating	**242,768**	**75.1**	217,326	66.6	211,195	64.0
General and administrative	**19,553**	**6.0**	15,199	4.7	14,778	4.5
Adjusted EBITDA	**61,032**	**18.9**	93,554	28.7	104,252	31.6
Depreciation and amortization	**32,630**	**10.1**	30,758	9.4	25,598	7.8
Loss on asset decommissioning	**–**		–	–	1,527	0.5
Operating earnings	**28,402**	**8.8**	62,796	19.3	77,127	23.4

Revenue from Completion and Production Services was $323 million in 2013, 1% lower than 2012, mainly because industry activity was lower; customers reduced their spending on production activity as natural gas prices remained weak. Reduced activity was partially offset by higher average day rates due to product mix and expansion of our services into the U.S.

Operating earnings were $28 million in 2013, 55% lower than 2012, and equated to 9% of revenue compared to 19% in 2012 as service rig activity was down in 2013 and rental equipment saw less activity.

Operating expenses were 75% of revenue, 8 percentage points higher than 2012, mainly because of lower equipment utilization, 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 $2 million higher than 2012 mainly because of depreciation on equipment purchases in 2012 and 2013.

Capital expenditures were $83 million:
- $74 million – to expand the underlying asset base
- $9 million – on maintenance and infrastructure.

Revenue from Precision Well Servicing was $189 million, 14% lower than 2012, because operating activity was down 14%.

Revenue from Precision Rentals was $39 million, 26% lower than 2012. 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 also provide power generation equipment, solids control equipment, and WaterDams (containment rings).

Revenue from Precision Camp Services was $33 million, 5% higher than 2012, because there were more base camp days. Precision operated three base camps and 50 drill camps during 2013.

Operating Results

Year ended December 31	2013	% increase/ (decrease)	2012	% increase/ (decrease)	2011	% increase/ (decrease)
Number of service rigs (end of year)[1]	**222**	**3.7**	214	3.4	207	(5.9)
Service rig operating hours[2]	**283,576**	**(3.8)**	294,681	(7.2)	317,418	7.9
Revenue per operating hour[2]	**854**	**14.8**	744	8.1	688	8.0

[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.

In 2013, we added one coil tubing unit in Canada and six in the U.S. In addition, we moved two service rigs from Canada to the U.S., added one service rig to Canada and moved one snubbing unit from the U.S. to Canada. We also added rental equipment as we continue to expand our North American footprint.

Service rig rates increased 15% as we provided higher-end services and crew wage increases were passed through to customers. Our service rig hours decreased 4% although higher rig rates and our U.S. expansion partially offset market activity declines.

CORPORATE AND OTHER

Financial Results

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

Year ended December 31 *(thousands of dollars)*	2013	2012	2011
Revenue	**–**	–	–
Expenses			
Operating	**–**	–	–
General and administrative	**75,863**	72,043	74,577
Adjusted EBITDA	**(75,863)**	(72,043)	(74,577)
Depreciation and amortization	**8,312**	4,774	6,691
Operating earnings (loss)	**(84,175)**	(76,817)	(81,268)

Our corporate segment has support functions that provide assistance to our other business segments. It includes costs incurred in corporate groups in both Canada and the U.S.

Corporate and other expenses were $76 million in 2013, $4 million more than 2012, mainly related to costs resulting from international growth. In 2013, corporate general and administrative costs were 3.7% of consolidated revenue compared to 3.5% in 2012 and 3.8% in 2011.

QUARTERLY FINANCIAL RESULTS

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

2013 – Quarters Ended *(thousands of dollars, except per share amounts)*	**March 31**	**June 30**	**September 30**	**December 31**
Revenue	**595,720**	**378,898**	**488,450**	**566,909**
Adjusted EBITDA	**215,181**	**88,248**	**137,660**	**197,744**
Net earnings (loss)	**93,313**	**473**	**29,443**	**67,921**
Per basic share	**0.34**	**0.00**	**0.11**	**0.24**
Per diluted share	**0.33**	**0.00**	**0.10**	**0.24**
Funds provided by operations	**144,682**	**33,791**	**127,684**	**155,816**
Cash provided by operations	**62,948**	**182,345**	**88,341**	**94,452**
Dividends per share	**0.05**	**0.05**	**0.05**	**0.06**

2012 – Quarters Ended *(thousands of dollars, 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

Seasonality

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 working capital requirements.

Fourth Quarter 2013 Compared to Fourth Quarter 2012

We had net earnings in the fourth quarter of $68 million or $0.24 per diluted share, compared to a net loss of $116 million or $0.42 per diluted share in the fourth quarter of 2012. In the fourth quarter of 2012, we recognized charges associated with asset decommissioning and a goodwill impairment that, combined, reduced net earnings by $179 million and net earnings per diluted share by $0.63 compared to the fourth quarter of 2013.

Revenue was $33 million higher in the fourth quarter of 2013 than the fourth quarter of 2012, mainly because of higher international and U.S. drilling activity and higher pricing in Canadian contract drilling partially offset by lower turnkey activity in the U.S.

Adjusted EBITDA was $21 million higher in the fourth quarter of 2013 than the fourth quarter of 2012 mainly because of increases in international activity and U.S. contract drilling activity, and lower costs in U.S. contract drilling.

Our adjusted EBITDA margin was 35% in the fourth quarter of 2013, compared to 33% in the fourth quarter of 2012. The increase in EBITDA margin was mainly due to improved profitability in international and U.S. contract drilling operations and new-build and upgraded rigs that we have deployed over the past few years partially offset by weaker demand for our completion and production services.

Operating costs were higher because of increased activity internationally and in contract drilling in the U.S. As a percentage of revenue, operating costs were 59% in the fourth quarter of 2013 and 61% in the same quarter of 2012. 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.

Fourth quarter drilling rig utilization days (drilling days plus move days) in Canada were 8,201 in 2013, in line with 2012. Drilling rig utilization days in the U.S. were 8,258 this quarter, 3% higher than the fourth quarter of 2012 as a result of an improvement in market share as we were able to put more rigs to work in a period when industry land drilling rigs declined 4%.

The majority of activity was in oil and liquids-rich natural gas related plays. We averaged a total of 190 rigs working in the quarter (89 in Canada, 90 in the U.S., and 11 internationally), compared to an average of 175 rigs in the third quarter of 2013 and 185 rigs in the fourth quarter of 2012.

Our North America service rig activity in the fourth quarter was 7% lower than the fourth quarter of 2012 (71,981 operating hours compared to 77,234 hours in the fourth quarter of 2012).

Contract Drilling Services

Revenue and adjusted EBITDA from Contract Drilling Services were both up in the fourth quarter compared to the fourth quarter of 2012: revenue was $484 million, 7% higher than the fourth quarter of 2012 and adjusted EBITDA was $200 million, 16% higher than the fourth quarter of 2012. These results were mainly because of higher drilling rig activity in international and the U.S. and higher average rates per day in Canada partially offset by lower turnkey activity in the U.S.

Operating results for our international operations improved as we averaged 11 rigs working compared to eight in the prior year comparative quarter. Drilling utilization days in our international operations for the quarter were 1,052 days, 43% higher than the fourth quarter of 2012.

Drilling rig utilization days in Canada (drilling days plus move days) during the fourth quarter of 2013 were 8,201, a decrease of 1% compared to 2012 while drilling rig utilization days in the U.S. were 8,258, or 3% higher than the same quarter of 2012. The increase in U.S. activity was primarily due to strong demand for Tier 1 assets and resulted in market share gains by Precision during the second half of the year. The majority of our North America activity came from oil and liquids-rich natural gas related plays.

In Canada, we generated 44% of utilization days in the fourth quarter from rigs under term contract, compared to 41% in the fourth quarter of 2012. In the U.S., we generated 62% of utilization days from rigs under term contract as compared to 64% in the fourth quarter of 2012. At the end of the quarter, we had 57 drilling rigs working under term contracts in Canada, 58 in the U.S. and 10 internationally.

Operating costs were 56% of revenue for the fourth quarter of 2013 (2012 – 60%). On a per utilization day basis, operating costs for the drilling rig division in Canada were above the prior year primarily because of an increase in crew wage expense. In the U.S., operating costs for the quarter on a per day basis were down from the fourth quarter of 2012 as a result of proportionately lower turnkey activity and cost savings from operational efficiencies. Labour rate increases are typically recovered through higher dayrates.

Depreciation expense in the quarter was 2% higher than the prior year due to an increase in drilling activity and a greater proportion of operating days from our Tier 1 drilling rigs. In 2012, 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.

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

Completion and Production Services

Revenue for the fourth quarter of 2013, from Completion and Production Services was $85 million in-line with the prior year while adjusted EBITDA was $16 million, down 27% from the prior year, as weaker demand in the Canadian market offset the expansion of services in the U.S. Activity in Canadian well servicing was down 16% but was offset by a 158% increase in U.S. well servicing activity and higher average hourly rates in both Canada and the U.S.

Well servicing activity in the fourth quarter was 7% lower than the fourth quarter of 2012, as lower customer demand in Canada more than offset our growing U.S. presence. Approximately 83% of the fourth quarter service rig activity was oil related. Our rental division activity in the fourth quarter was lower than the fourth quarter of 2012 mainly due to the excess amount of surface storage capacity in Western Canada.

Average service rig revenue per operating hour in the fourth quarter was $878, or $83 higher than the fourth quarter of 2012. The increase was primarily the result of increased coil tubing operations in 2013, which operate at higher rates.

Operating costs as a percentage of revenue increased to 76% in the fourth quarter of 2013, from 70% in the fourth quarter of 2012. Operating costs per service rig operating hour were higher than in the fourth quarter of 2012 mainly because of the increase in costs associated with the new coil tubing operations and fixed costs spread over a lower activity base.

Depreciation in the fourth quarter of 2013 was 7% lower than the fourth quarter of 2012 because of lower equipment utilization and losses on disposal realized in the fourth quarter of 2012. We use the straight-line method of calculating depreciation for our completion and production business lines, except for the well servicing division, where we use the unit-of-production method.

Consolidated

General and administrative expenses were $34 million in the fourth quarter, $4 million higher than the fourth quarter of 2012 because of the year to date recording of incentive compensation liabilities, which are tied to the price of our common shares and our annual operating results.

Net finance charges were $23 million in the fourth quarter, $1 million higher than the fourth quarter of 2012, mainly because of the increase in average outstanding debt stated in Canadian dollars.

Capital expenditures were $123 million in the fourth quarter compared to $187 million in the fourth quarter of 2012. Spending in the fourth quarter of 2013 included:

- $54 million – to expand the underlying asset base
- $30 million – to upgrade existing equipment
- $39 million – on maintenance and infrastructure.

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 flows, 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 scalable cost structure so we can be responsive to changing competition and market demand. And we invest in our fleet to make sure we remain competitive. Our maintenance capital expenditures are rightly governed by and highly responsive to activity levels with additional cost savings leverage provided through our internal manufacturing and supply divisions. Term contracts on expansion capital for new-build rig programs help provide more certainty of future revenues and return on our capital investments.

Liquidity

As at December 31, 2013, our liquidity was supported by a cash balance of $81 million, a senior secured credit facility of US$850 million, operating facilities totalling approximately $55 million, and a US$25 million secured facility for letters of credit.

At December 31, 2013, including letters of credit, we had approximately $1,394 million (2012 – $1,290 million) outstanding under our secured and unsecured credit facilities and $23 million in unamortized debt issue costs. Our secured facility includes financial ratio covenants that are tested quarterly. We are compliant with these covenants and expect to remain compliant.

We ended 2013 with a long-term debt to long-term debt plus equity ratio of 0.36 (compared to 0.36 in 2012) and a ratio of long-term debt to cash provided by operations of 3.09 (compared to 1.92 in 2012).

The current blended cash interest cost of our debt is about 6.5%.

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 we link our executives' incentive compensation to the returns we generate compared to our peers.

Financial Position and Ratios

At December 31 *(thousands of dollars, except ratios)*	**2013**	2012	2011
Working capital	**305,783**	278,021	610,429
Working capital ratio	**1.9**	1.7	2.4
Long-term debt	**1,323,268**	1,218,796	1,239,616
Total long-term financial liabilities	**1,355,535**	1,245,290	1,267,040
Total assets	**4,579,123**	4,300,263	4,427,874
Enterprise value (see table on page 40)	**3,919,763**	3,213,406	3,528,046
Long-term debt to long-term debt plus equity	**0.36**	0.36	0.37
Long-term debt to cash provided by operations	**3.09**	1.92	2.33
Long-term debt to adjusted EBITDA	**2.07**	1.82	1.78
Long-term debt to enterprise value	**0.34**	0.38	0.35

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

We base our maintenance capital decisions on actual activity levels, using key financial indicators that we express as per operating day or per operating hour. 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 U.S. dollars and currencies that are pegged to the U.S. dollar). This 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 that 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 dollars)*	**2013**	2012	2011
Cash from operations	**428,086**	635,286	532,772
Cash used in investing	**(526,535)**	(930,121)	(715,462)
Deficit	**(98,449)**	(294,835)	(182,690)
Cash (used in) from financing	**21,517**	(14,899)	366,887
Effect of exchange rate changes on cash	**4,770**	(4,974)	26,448
Net cash generated (used)	**(72,162)**	(314,708)	210,645

Cash from Operations

In 2013, we generated cash from operations of $428 million compared to $635 million in 2012. The reduction is primarily the result of higher income taxes paid in 2013 and lower operating results than 2012.

Investing Activity

We made growth and sustaining capital investments of $536 million in 2013:

- $282 million in expansion capital
- $141 million in upgrade capital
- $113 million in maintenance and infrastructure capital.

The $536 million in capital expenditures in 2013 was split between segments:

- $447 million in Contract Drilling Services
- $83 million in Completion and Production Services
- $6 million in Corporate and Other.

Expansion and upgrade capital includes the cost of long-lead items purchased for our capital inventory, such as 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

As at December 31, 2013, we had drawn US$28 million on our senior secured revolving facility, which in prior years had only been used for letters of credit. No other changes, with the exception of foreign exchange translation, were made to our net borrowings in 2013.

Effective August 30, 2012, our senior secured facility was increased from US$550 million to US$850 million and the US$100 million accordion feature was increased to US$250 million, allowing the facility to be increased to US$1,100 million with additional lender commitments. The term was extended to five years and several negative covenants were relaxed.

Also on August 30, 2012, our operating facility with Royal Bank of Canada was increased from $25 million to $40 million and it remained undrawn as at March 7, 2014, except for $17 million in outstanding letters of credit. Our operating facility of US$15 million with Wells Fargo remained undrawn as at March 7, 2014. Effective September 27, 2012, we entered into a new US$25 million demand facility for letters of credit with HSBC Canada and as at March 7, 2014, US$24.8 million was available.

Debt

At December 31, 2013, we had approximately $987 million in secured facilities, and $1,347 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)	Drawn US$28 million and US$29 million in outstanding letters of credit	General corporate purposes	November 17, 2018
Operating facilities (secured)			
$40 million	Undrawn, except $17 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, except $0.2 million in outstanding letters of credit	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-build rig 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.

	Payments due (by period)				
At December 31, 2013 *(thousands of dollars)*	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
Long-term	–	–	29,781	1,316,780	1,346,561
Interest on long-term debt	87,176	174,352	174,263	170,394	606,185
Rig construction	150,624	–	–	–	150,624
Operating leases	16,833	25,434	15,824	15,714	73,805
Contractual incentive plans[1]	14,952	29,788	–	–	44,740
Contingent purchase consideration	28,133	–	–	–	28,133
Total	297,718	229,574	219,868	1,501,888	2,250,048

[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 $9.83 at December 31, 2013.

CAPITAL STRUCTURE

	March 7, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Shares outstanding	291,979,671	291,979,671	276,475,770	276,081,797
Deferred shares outstanding	221,112	221,112	335,946	417,495
Warrants outstanding	–	–	15,000,000	15,000,000
Share options outstanding	9,515,278	8,074,694	6,413,777	5,154,123

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

Common Shares

Our articles of amalgamation allow us to issue an unlimited number of common shares.

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. In the fourth quarter of 2013, our Board of Directors approved an increase in the quarterly dividend payment to $0.06 per common share.

Warrants

During December 2013, all of our 15,000,000 outstanding warrants were exercised providing proceeds of $48 million. The warrants were issued on April 22, 2009, under a private placement. Each warrant was exercisable for one common share at a price of $3.22 per common share for five years from the date of issue.

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 currently have no preferred shares issued.

Enterprise Value

(thousands of dollars, except shares outstanding and per share amounts)	**December 31, 2013**	December 31, 2012	December 31, 2011
Shares outstanding	**291,979,671**	276,475,770	276,081,797
Year-end share price on the TSX	**9.94**	8.22	10.50
Shares at market	**2,902,278**	2,272,631	2,898,859
Long-term debt	**1,323,268**	1,218,796	1,239,616
Less working capital	**(305,783)**	(278,021)	(610,429)
Enterprise value	**3,919,763**	3,213,406	3,528,046

Accounting Policies and Estimates

Critical Accounting Estimates and Judgements

Because of the nature of our business, we are required to make estimates about the future that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. 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:

- impairment of long-lived assets
- depreciation and amortization
- income taxes.

Impairment of Long-Lived Assets

Long-lived assets, which include property, plant and equipment, intangibles and goodwill, comprise the majority of our 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 us to forecast future cash flows to be derived from the utilization of these assets based on assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

For goodwill, we conduct impairment tests annually in the fourth quarter or whenever there is a change in circumstance that indicates that the carrying value may not be recoverable. 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 judgment is required in determining the appropriate discount rate. We use observable market data inputs to develop a discount rate that we believe approximates the discount rate from market participants.

In deriving the underlying projected cash flows, assumptions must also be made about future drilling activity, margins and market conditions over the long-term life of the assets or CGUs. We cannot predict if an event that triggers impairment will occur, when it will occur or how it will occur or how it will affect reported asset amounts. Although estimates are reasonable and consistent with current conditions, internal planning and expected future operations, such estimations are subject to significant uncertainty and judgment.

We performed an impairment test on the well servicing CGU at December 31, 2013 as described in note 6 to the Consolidated Financial Statements. This CGU has $89 million of goodwill allocated to it. An increase in the discount rate used by 1% would require an impairment charge being recognized on the goodwill assigned to the well servicing CGU.

Depreciation and Amortization

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

Determination of which part of the drilling rig equipment represent significant cost relative to the entire rig and identifying the consumption patterns along with the useful lives of these significant parts, are matters of judgment. This determination can be complex and subject to differing interpretations and views, particularly when rig equipment comprises individual components for which different depreciation methods or rates are appropriate.

Income Taxes

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 taxable income and expense already recorded. We establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which we operate. 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.

In June 2013 a wholly owned subsidiary of the Corporation lost a tax appeal in the Ontario Superior Court of Justice related to a reassessment of Ontario income tax for the subsidiary's 2001 through 2004 taxation years. The Corporation has appealed the decision to the Ontario Court of Appeal and expects this appeal to be heard in 2014. Despite the decision in the Superior Court, management believes it is more likely than not that the Corporation would prevail on appeal. Should the Corporation lose on appeal, approximately $55 million of the long-tern income tax recoverable related to this issue would be expensed.

Accounting Policies Adopted January 1, 2013

Following are accounting policies Precision adopted with an initial application date of January 1, 2013:

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.

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.

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 to the consolidated financial statements, 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.

IFRS 13 Fair Value Measurement
IFRS 13 defines fair value and 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 have been presented, as relevant, in the 2013 interim and annual financial statements.

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 January 1, 2015, with early adoption permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

Evaluation of Disclosure Controls and Procedures

Internal Control over Financial Reporting

Precision maintains internal control over financial reporting which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a – 15(f) and 15d – 15(f) under the United States Securities Exchange Act of 1934, as amended (the Exchange Act) and under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109).

Management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), has conducted an evaluation of Precision's internal control over financial reporting based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management's assessment as at December 31, 2013, management has concluded that Precision's internal control over financial reporting is effective.

The effectiveness of internal control over financial reporting as of December 31, 2013 was audited by KPMG LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Public Accounting Firm, which is included in this 2013 Annual Report to Shareholders.

Due to its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of Precision's financial statements would be prevented or detected. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate.

Disclosure Controls and Procedures

Precision maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in Precision's interim and annual filings is reviewed, recognized and disclosed accurately and in the appropriate time period.

An evaluation, as of December 31, 2013, of the effectiveness of the design and operation of Precision's disclosure controls and procedures, as defined in Rule 13a – 15(e) and 15d – 15(e) under the Exchange Act and NI 52-109, was carried out by management, including the CEO and the CFO. Based on that evaluation, the CEO and CFO have concluded that the design and operation of Precision's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that Precision files or submits under the Exchange Act or Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in the rules and forms therein.

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

Corporate Governance

At Precision, we believe that a strong culture of corporate governance and ethical behaviour 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.

You can find more information about our approach to governance in our Management Information Circular, available on our website as well as on SEDAR and EDGAR.

Exhibit 99.3

Management's Report to the Shareholders

The accompanying consolidated financial statements and all information in this 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 that 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 on the financial results of Precision Drilling Corporation (the Corporation) prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2013 to December 31, 2012 and the years ended December 31, 2012 to December 31, 2011.

Management is responsible for establishing and maintaining adequate internal control over the Corporation's financial reporting and is supported by an internal audit function that 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) (1992). Based on this evaluation, management concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2013. Also management determined that there were no material weaknesses in the Corporation's internal control over financial reporting as of December 31, 2013.

KPMG LLP (KPMG), 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 completed an audit of the design and effectiveness of the Corporation's internal control over financial reporting as of December 31, 2013, as stated in its report included herein, and expressed an unqualified opinion on the design and effectiveness of internal control over financial reporting as of December 31, 2013.

The Audit Committee of the Board of Directors, which is comprised of five independent directors who are not employees of the Corporation, provides oversight to the financial reporting process. Integral to this process is the Audit Committee's review and discussion with management and KPMG 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 KPMG major issues as to the adequacy of the Corporation's internal controls. KPMG has unrestricted access to the Audit Committee to discuss its 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 7, 2014



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

March 7, 2014

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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, 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, 2013, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992), and our report dated March 7, 2014 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 7, 2014

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, 2013, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992). 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, 2013, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992).

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, 2013 and December 31, 2012, and the related consolidated statements of income, shareholders' equity and cash flow for the years then ended, and our report dated March 7, 2014 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Calgary, Canada

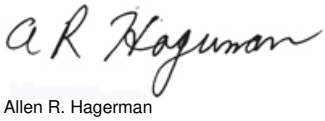
March 7, 2014

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)		December 31, 2013	December 31, 2012
ASSETS			
Current assets:			
Cash		**$ 80,606**	$ 152,768
Accounts receivable	*(Note 23)*	**549,697**	509,547
Inventory		**12,378**	13,787
Total current assets		**642,681**	676,102
Non-current assets:			
Income tax recoverable		**58,435**	64,579
Property, plant and equipment	*(Note 4)*	**3,561,734**	3,242,929
Intangibles	*(Note 5)*	**3,917**	6,101
Goodwill	*(Note 6)*	**312,356**	310,552
Total non-current assets		**3,936,442**	3,624,161
Total assets		**$ 4,579,123**	$ 4,300,263
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	*(Note 23)*	**$ 332,838**	$ 333,893
Income tax payable		**4,060**	64,188
Total current liabilities		**336,898**	398,081
Non-current liabilities:			
Share based compensation	*(Note 8)*	**14,431**	8,676
Provisions and other	*(Note 9)*	**17,836**	17,818
Long-term debt	*(Note 10)*	**1,323,268**	1,218,796
Deferred tax liabilities	*(Note 11)*	**487,347**	485,592
Total non-current liabilities		**1,842,882**	1,730,882
Shareholders' equity:			
Shareholders' capital	*(Note 12)*	**2,305,227**	2,251,982
Contributed surplus		**29,175**	24,474
Retained earnings (deficit)		**88,416**	(44,621)
Accumulated other comprehensive loss	*(Note 13)*	**(23,475)**	(60,535)
Total shareholders' equity		**2,399,343**	2,171,300
Total liabilities and shareholders' equity		**$ 4,579,123**	$ 4,300,263

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)*		**2013**	2012
Revenue		**$ 2,029,977**	$ 2,040,741
Expenses:			
Operating	*(Note 23)*	**1,248,637**	1,243,301
General and administrative	*(Note 23)*	**142,507**	126,648
Earnings before income taxes, finance charges, foreign exchange, impairment of goodwill, loss on asset decommissioning and depreciation and amortization		**638,833**	670,792
Depreciation and amortization		**333,159**	307,525
Loss on asset decommissioning	*(Note 4)*	**–**	192,469
Operating earnings		**305,674**	170,798
Impairment of goodwill		**–**	52,539
Foreign exchange		**(9,112)**	3,753
Finances charges	*(Note 14)*	**93,248**	86,829
Earnings before tax		**221,538**	27,677
Income taxes:	*(Note 11)*		
Current		**45,017**	70,576
Deferred		**(14,629)**	(95,259)
		30,388	(24,683)
Net earnings		**$ 191,150**	$ 52,360
Earnings per share:	*(Note 18)*		
Basic		**$ 0.69**	$ 0.19
Diluted		**$ 0.66**	$ 0.18

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, *(Stated in thousands of Canadian dollars)*	**2013**	2012
Net earnings	**$ 191,150**	$ 52,360
Unrealized gain (loss) on translation of assets and liabilities of operations denominated in foreign currency	**109,195**	(32,878)
Foreign exchange gain (loss) on net investment hedge with U.S. denominated debt, net of tax	**(72,135)**	23,205
Comprehensive income	**$ 228,210**	$ 42,687

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

Years ended December 31, *(Stated in thousands of Canadian dollars)*		**2013**	2012
Cash provided by (used in):			
Operations:			
Net earnings		**$ 191,150**	$ 52,360
Adjustments for:			
Long-term compensation plans		**20,708**	19,350
Depreciation and amortization		**333,159**	307,525
Loss on asset decommissioning		**–**	192,469
Impairment of goodwill		**–**	52,539
Foreign exchange		**(9,216)**	4,403
Finance charges		**93,248**	86,829
Income taxes		**30,388**	(24,683)
Other		**(3,754)**	1,018
Income taxes paid		**(109,326)**	(10,403)
Income taxes recovered		**3,761**	721
Interest paid		**(89,156)**	(85,251)
Interest received		**1,011**	1,935
Funds provided by operations		**461,973**	598,812
Changes in non-cash working capital balances	*(Note 23)*	**(33,887)**	36,474
		428,086	635,286
Investments:			
Business acquisitions, net of cash acquired	*(Note 19)*	**–**	(25)
Purchase of property, plant and equipment	*(Note 4)*	**(535,804)**	(868,057)
Proceeds on sale of property, plant and equipment		**13,372**	31,423
Changes in income tax recoverable		**6,144**	–
Changes in non-cash working capital balances	*(Note 23)*	**(10,247)**	(93,462)
		(526,535)	(930,121)
Financing:			
Debt issue costs		**(883)**	(2,855)
Debt facility amendment costs		**–**	(149)
Dividends paid	*(Note 12)*	**(58,113)**	(13,821)
Increase in long-term debt		**29,781**	–
Issuance of common shares on the exercise of options	*(Note 12)*	**2,432**	1,926
Issuance of common shares on the exercise of warrants	*(Note 12)*	**48,300**	–
		21,517	(14,899)
Effect of exchange rate changes on cash and cash equivalents		**4,770**	(4,974)
Decrease in cash and cash equivalents		**(72,162)**	(314,708)
Cash and cash equivalents, beginning of year		**152,768**	467,476
Cash and cash equivalents, end of year		**$ 80,606**	$ 152,768

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)*	Retained earnings (deficit)	Total equity
Balance at January 1, 2013		$ 2,251,982	$ 24,474	$ (60,535)	$ (44,621)	$ 2,171,300
Net earnings for the period		–	–	–	191,150	191,150
Other comprehensive income for the period		–	–	37,060	–	37,060
Dividends		–	–	–	(58,113)	(58,113)
Share options exercised	*(Note 12)*	3,707	(1,275)	–	–	2,432
Shares issued on redemption of non-management directors' DSUs		1,238	(1,031)	–	–	207
Warrants exercised		48,300	–	–	–	48,300
Share based compensation expense	*(Note 8)*	–	7,007	–	–	7,007
Balance at December 31, 2013		**$ 2,305,227**	**$ 29,175**	**$ (23,475)**	**$ 88,416**	**$ 2,399,343**

(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
Shares issued on redemption of non-management directors' DSUs		706	(706)	–	–	–
Shares 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

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, the United States and certain international locations. 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 7, 2014.

(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 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
Seasonal, stratification and turnkey drilling equipment	4 years	0 to 20%	straight-line
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.

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 CGUs 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 at 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 on service orders or contracts with a customer that include fixed or determinable prices based on 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 on 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, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when 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 has 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 Judgments

(i) Depreciation and Amortization
Precision's property, plant and equipment and its intangible assets are depreciated and amortized based on estimates of useful lives and salvage values. These estimates consider 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.

Determination of which part of the drilling rig equipment represent significant cost relative to the entire rig and identifying the consumption patterns along with the useful lives of these significant parts, are matters of judgment. This determination can be complex and subject to differing interpretations and views, particularly when rig equipment comprises individual components for which different depreciation methods or rates are appropriate.

(ii) Income Taxes
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 taxable 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 countries 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.

In June 2013 a wholly owned subsidiary of the Corporation lost a tax appeal in the Ontario Superior Court of Justice related to a reassessment of Ontario income tax for the subsidiary's 2001 thru 2004 taxation years. The Corporation has appealed the decision to the Ontario Court of Appeal and expects this appeal to be heard in 2014. Despite the decision in the Superior Court, management believes it is more likely than not that the Corporation would prevail on appeal. Should the Corporation lose on appeal, approximately $55 million of the long-tern income tax recoverable related to this issue would be expensed.

(s) Critical Accounting Assumptions and Estimates

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 on assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

For goodwill, we conduct impairment tests annually in the fourth quarter or whenever there is change in circumstance that indicates that the carrying value may not be recoverable. The recoverability of goodwill requires a calculation of the recoverable amount of the 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 judgment is required in determining the appropriate discount rate. We use observable market data inputs to develop a discount rate that we believe approximates the discount rate from market participants.

In deriving the underlying projected cash flows, assumptions must also be made about future drilling activity, margins and market conditions over the long-term life of the assets or CGUs. Precision cannot predict if an event that triggers impairment will occur, when it will occur or how it will occur or how it will affect reported asset amounts. Although estimates are reasonable and consistent with current conditions, internal planning and expected future operations, such estimations are subject to significant uncertainty and judgment.

We performed an impairment test on the well servicing CGU at December 31, 2013 as described in note 6. This CGU has $89 million of goodwill allocated to it. An increase in the discount rate used by 1% would require an impairment charge being recognized on the goodwill assigned to the well servicing CGU.

(t) 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 had 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 and 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 have been presented, as relevant, in the 2013 interim and annual financial statements.

(u) 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 January 1, 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

	2013	2012
Cost	$ **5,260,263**	$ 4,608,381
Accumulated depreciation	**(1,698,529)**	(1,365,452)
	$ **3,561,734**	$ 3,242,929
Rig equipment	$ **3,033,159**	$ 2,819,491
Rental equipment	**108,453**	91,351
Other equipment	**78,670**	78,358
Vehicles	**42,993**	40,759
Buildings	**49,506**	50,585
Assets under construction	**219,433**	133,791
Land	**29,520**	28,594
	$ **3,561,734**	$ 3,242,929

Cost

	Rig Equipment	Rental Equipment	Other Equipment	Vehicles	Buildings	Assets Under Construction	Land	
December 31, 2011	$ 3,441,052	$ 112,707	$ 142,563	$ 28,051	$ 48,082	$ 336,605	$ 20,658	$ 4
Additions	256,661	17,068	18,330	32,994	21,998	512,139	8,867	
Disposals	(26,796)	(920)	(8,311)	(2,267)	(971)	(38,405)	(857)	
Asset decommissioning	(262,192)	–	–	–	–	–	–	(
Reclassifications	619,351	24,530	19,144	4,959	2,295	(670,279)	–	
Removal of fully depreciated assets	–	–	(71)	–	–	–	–	
Effect of foreign currency exchange differences	(41,333)	(1,034)	(18)	(541)	665	(6,269)	(74)	
December 31, 2012	3,986,743	152,351	171,637	63,196	72,069	133,791	28,594	4
Additions	143,252	6,346	1,651	3,588	–	380,788	179	
Disposals	(52,659)	(1,126)	(2,971)	(5,324)	–	–	–	
Reclassifications	270,615	10,508	14,141	4,900	825	(300,989)	–	
Effect of foreign currency exchange differences	163,445	1,866	936	3,251	2,070	5,843	747	
December 31, 2013	**$ 4,511,396**	**$ 169,945**	**$ 185,394**	**$ 69,611**	**$ 74,964**	**$ 219,433**	**$ 29,520**	**$ 5**

Accumulated Depreciation

	Rig Equipment	Rental Equipment	Other Equipment	Vehicles	Buildings	Assets Under Construction	Land	
December 31, 2011	$ 1,008,185	$ 54,118	$ 87,358	$ 17,812	$ 19,949	$ –	$ –	$
Depreciation expense	274,129	7,901	14,280	6,917	2,341	–	–	
Disposals	(35,697)	(785)	(8,213)	(2,132)	(884)	–	–	
Asset decommissioning	(69,723)	–	–	–	–	–	–	
Reclassifications	60	(156)	646	16	(566)	–	–	
Removal of fully depreciated assets	–	–	(71)	–	–	–	–	
Effect of foreign currency exchange differences	(9,702)	(78)	(721)	(176)	644	–	–	
December 31, 2012	1,167,252	61,000	93,279	22,437	21,484	–	–	
Depreciation expense	295,807	9,695	15,518	8,299	3,774	–	–	
Disposals	(43,423)	(1,007)	(2,937)	(5,069)	–	–	–	
Reclassifications	8,314	(8,557)	273	(20)	(10)	–	–	
Effect of foreign currency exchange differences	50,287	361	591	971	210	–	–	
December 31, 2013	**$ 1,478,237**	**$ 61,492**	**$ 106,724**	**$ 26,618**	**$ 25,458**	**$ –**	**$ –**	**$**

In 2012, the Corporation incurred a $192.5 million loss on the decommissioning of certain drilling rigs. The assets were decommissioned due to the inefficient nature of the assets and the high cost to maintain. The charge was allocated fully to the Contract Drilling 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.

NOTE 5. INTANGIBLES

	2013	2012
Cost	**$ 12,221**	$ 12,388
Accumulated amortization	**(8,304)**	(6,287)
	$ 3,917	$ 6,101
Customer relationships	**$ 616**	$ 1,890
Patents and brands	**16**	21
Loan commitment fees related to revolving credit facility	**3,285**	4,190
	$ 3,917	$ 6,101

Cost

	Customer Relationships	Patents and Brands	Loan Commitment Fees	Total
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)
December 31, 2012	4,575	53	7,760	12,388
Business acquisitions	–	–	–	–
Additions	–	–	883	883
Effect of foreign currency exchange differences	78	–	–	78
Removal of fully amortized assets	(1,128)	–	–	(1,128)
December 31, 2013	**$ 3,525**	**$ 53**	**$ 8,643**	**$ 12,221**

Accumulated Amortization

	Customer Relationships	Patents and Brands	Loan Commitment Fees	Total
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)
December 31, 2012	2,685	32	3,570	6,287
Amortization expense	1,294	5	1,788	3,087
Effect of foreign currency exchange differences	58	–	–	58
Removal of fully amortized assets	(1,128)	–	–	(1,128)
December 31, 2013	**$ 2,909**	**$ 37**	**$ 5,358**	**$ 8,304**

NOTE 6. GOODWILL

Balance, December 31, 2011	$	363,646
Business acquisitions		25
Impairment charge		(52,539)
Exchange adjustment		(580)
Balance, December 31, 2012		310,552
Exchange adjustment		1,804
Balance, December 31, 2013	**$**	**312,356**

The Corporation performed an impairment test on the well servicing CGU at December 31, 2013. This CGU has $89 million of goodwill allocated to it. The cash flow projections used in performing the impairment test were based on future expected outcomes taking into account past experience and management expectation of future market conditions. No terminal value growth rate was used due to the finite lives of the underlying assets of the CGU. An increase in the discount rate used by 1% would require an impairment charge being recognized on the goodwill assigned to the well servicing CGU.

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, 2013 and 2012, Precision had available $40.0 million and US$15.0 million under secured operating facilities, and a secured US$25.0 million facility for the issuance of letters of credit and performance and bid bonds to support international operations. As at December 31, 2013 and 2012, no amounts had been drawn on any of the facilities. Availability of the $40.0 million and US$25.0 million facility were reduced by outstanding letters of credit in the amount of $17.3 million (2012 – $18.9 million) and US$0.2 million (2012 – US $nil), respectively. 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 bank's 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	Restricted Share Units	Performance Share Units	Share Appreciation Rights	Non-Management Directors' DSUs	Total
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)
December 31, 2012	–	9,685	13,778	497	816	24,776
Expensed (recovered) during the period	–	11,622	8,137	(251)	1,245	20,753
Payments and redemptions	–	(7,769)	(8,953)	–	(207)	(16,929)
December 31, 2013	**$ –**	**$ 13,538**	**$ 12,962**	**$ 246**	**$ 1,854**	**$ 28,600**
Current	$ –	$ 9,027	$ 4,896	$ 246	$ –	$ 14,169
Long-term	–	4,511	8,066	–	1,854	14,431
	$ –	$ 13,538	$ 12,962	$ 246	$ 1,854	$ 28,600

(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. A summary of the RSUs and PSUs outstanding under these share based incentive plans is presented below:

	RSUs Outstanding	PSUs Outstanding
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)
December 31, 2012	1,880,250	1,948,952
Granted	1,295,739	1,258,650
Issued as a result of cash dividends	51,113	54,623
Redeemed	(869,744)	(696,171)
Forfeitures	(243,863)	(128,126)
December 31, 2013	**2,113,495**	**2,437,928**

(b) Share Appreciation Rights

The Corporation has a U.S. dollar denominated Share Appreciation Rights (SAR) plan under which eligible participants were granted SARs that entitle the rights holder to receive cash payments calculated as the excess of the market price over the exercise price per share on the exercise date. The SARs vest over a period of 5 years and expire 10 years from the date of grant. At December 31, 2013, the intrinsic value of these awards was $7,000 (2012 – $nil).

Share Appreciation Rights	Outstanding	Range of Exercise Price (US$)	Weighted Average Exercise Price (US$)	Exercisable
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	
December 31, 2012	678,242	9.26 – 17.38	14.81	678,242
Forfeited	(90,080)	13.26 – 17.38	15.42	
December 31, 2013	**588,162**	**$ 9.26 – 17.38**	**$ 14.71**	**588,162**

	Total SARs 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	100,844	13.26	1.10
15.00 – 17.38	427,415	15.82	3.43
$ 9.26 – 17.38	588,162	$ 14.71	2.71

(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 on 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 for 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 any time 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 on 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
January 1, 2011	–
Granted	101,535
Issued as a result of cash dividends	429
December 31, 2012	101,964
Granted	105,338
Issued as a result of cash dividends	2,836
Redeemed	(21,563)
December 31, 2013	**188,575**

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 on 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
December 31, 2011	417,495
Issued as a result of cash dividends	1,630
Redeemed	(83,179)
December 31, 2012	335,946
Issued as a result of cash dividends	5,459
Redeemed	(120,293)
December 31, 2013	**221,112**

(e) Option Plan
The Corporation has a share option plan under which a combined total of 16,569,134 options to purchase common shares are reserved to be granted to employees. Of the amount reserved, 9,357,588 options have been granted. Under this plan, the exercise price of each option equals the fair market of the option at the date of grant determined by the weighted average trading price for the five days preceding the grant. The options are denominated in either Canadian or U.S. dollars, and vest over a period of three years from the date of grant as employees render continuous service to the Corporation and have a term of seven years.

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

Canadian share options	Options Outstanding	Range of Exercise Prices	Weighted Average Exercise Price	Options Exercisable
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	
December 31, 2012	4,013,797	5.22 – 14.50	9.13	1,846,603
Granted	1,237,500	7.82 – 9.02	8.99	
Exercised	(172,158)	5.85 – 10.67	7.43	
Forfeitures	(178,253)	5.85 – 14.50	9.77	
December 31, 2013	**4,900,886**	**$ 5.22 – 14.50**	**$ 9.14**	**2,676,865**

U.S. share options	Options Outstanding	Range of Exercise Prices (US$)	Weighted Average Exercise Price (US$)	Options Exercisable
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	
December 31, 2012	2,399,980	4.95 – 15.21	9.23	935,035
Granted	1,025,100	8.99 – 9.28	9.00	
Exercised	(189,887)	4.95 – 10.55	5.89	
Forfeitures	(61,385)	7.14 – 15.21	10.82	
December 31, 2013	**3,173,808**	**$ 4.95 – 15.21**	**$ 9.32**	**1,438,335**

The weighted average share price at the date of exercise for share options exercised in 2013 was $10.11 (2012 – $9.42) for the Canadian share options and US$9.90 (2012 – US$10.10) for the U.S. share options.

The range of exercise prices for options outstanding at December 31, 2013 is 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	706,438	$ 5.85	2.35	706,438	$ 5.85
7.00 – 8.99	981,297	8.53	3.25	942,662	8.56
9.00 – 14.50	3,213,151	10.04	5.16	1,027,765	10.62
$ 5.22 – 14.50	4,900,886	$ 9.14	4.37	2,676,865	$ 8.64

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	188,872	$ 4.95	2.35	188,872	$ 4.95
6.00 – 8.99	1,606,533	8.55	5.08	581,195	7.82
9.00 – 15.21	1,378,403	10.82	4.67	668,268	10.89
$ 4.95 – 15.21	3,173,808	$ 9.32	4.74	1,438,335	$ 8.87

The per option weighted average fair value of the share options granted during 2013 was $3.26 (2012 – $4.79) estimated on the grant date using the Black-Scholes option pricing model with the following assumption: average risk-free interest rate 1% (2012 – 1%), average expected life of four years (2012 – four years), expected forfeiture rate of 5% (2012 – 5%) and expected volatility of 53% (2012 – 59%). Included in net earnings for the year ended December 31, 2013 is an expense of $7.0 million (2012 – $7.9 million).

NOTE 9. PROVISIONS AND OTHER

	Workers' Compensation
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
Expensed during the year	4,350
Payment of deductibles and uninsured claims	(8,546)
Effects of foreign currency exchange differences	1,781
Balance December 31, 2013	**$ 24,186**

	2013	2012
Current	**$ 6,350**	$ 8,783
Long-term	**17,836**	17,818
	$ 24,186	$ 26,601

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 on 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

	2013	2012
Secured revolving credit facility	**$ 29,781**	$ –
Unsecured senior notes:		
6.625% senior notes due 2020 (US$650.0 million)	**691,340**	646,685
6.5% senior notes due 2021 (US$400.0 million)	**425,440**	397,960
6.5% senior notes due 2019	**200,000**	200,000
	1,346,561	1,244,645
Less net unamortized debt issue costs	**(23,293)**	(25,849)
	$ 1,323,268	$ 1,218,796

(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 dispose of assets; make or pay dividends, share redemptions or other distributions; change its primary business; incur liens on assets; enter into mergers, consolidations or amalgamations; and enter into speculative swap agreements. At December 31, 2013, Precision was in compliance 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, 2018.

Under the revolving credit facility amounts can be drawn in U.S. dollars and/or Canadian dollars and as at December 31, 2013, US$28.0 was outstanding (2012 – $nil). Up to US$200 million of the revolving credit facility is available for letters of credit denominated in U.S and/or Canadian dollars and as at December 31, 2013 outstanding letters of credit amounted to US$28.6 million (2012 – US$26.8 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
- $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.
- 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.

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.

Prior to November 15, 2015, Precision may redeem the 6.625% Senior Notes due 2020 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 November 15, 2015 redemption price plus required interest payments through November 15, 2015 (calculated using the United States Treasury rate plus 50 basis points) over the principal amount of the note. As well, Precision may redeem these 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. Any time on or after November 15, 2018 these 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.

Prior to March 15, 2014, Precision may redeem 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 these 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 these 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. Any time on or after March 15, 2017 these 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.

Prior to December 15, 2014, Precision may redeem 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 these 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 these 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. Any time on or after December 15, 2019 these 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.

Long-term debt obligations at December 31, 2013 will mature as follows:

2018	$	29,781
Thereafter		1,316,780
	$	**1,346,561**

(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, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Cash	$ 27,160	$ 23,039	$ 30,407	$ –	$ 80,606
Other current assets	3,592	456,574	101,906	3	562,075
Intercompany receivables	424,178	2,342,467	74,795	(2,841,440)	–
Investments in subsidiaries	5,904,795	69	–	(5,904,864)	–
Income tax recoverable	–	–	58,435	–	58,435
Property, plant and equipment	56,501	3,261,610	243,858	(235)	3,561,734
Intangibles	3,286	631	–	–	3,917
Goodwill	–	312,356	–	–	312,356
Total assets	$ 6,419,512	$ 6,396,746	$ 509,401	$ (8,746,536)	$ 4,579,123
Liabilities and Shareholders' Equity					
Current liabilities	$ 40,624	$ 240,052	$ 56,222	$ –	$ 336,898
Intercompany payables and debt	2,442,373	202,986	196,081	(2,841,440)	–
Long-term debt	1,323,268	–	–	–	1,323,268
Other long-term liabilities	263,410	262,308	(6,104)	–	519,614
Total liabilities	4,069,675	705,346	246,199	(2,841,440)	2,179,780
Shareholders' equity	2,349,837	5,691,400	263,202	(5,905,096)	2,399,343
Total liabilities and shareholders' equity	$ 6,419,512	$ 6,396,746	$ 509,401	$ (8,746,536)	$ 4,579,123

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 Earnings (Loss) for the Year ended December 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenue	$ 143	$ 1,912,750	$ 137,681	$ (20,597)	$ 2,029,977
Operating expense	273	1,148,786	120,175	(20,597)	1,248,637
General and administrative expense	29,174	101,407	11,926	–	142,507
Earnings (loss) before income taxes, finance charges, foreign exchange, and depreciation and amortization	(29,304)	662,557	5,580	–	638,833
Depreciation and amortization	7,393	309,939	15,576	251	333,159
Operating earnings (loss)	(36,697)	352,618	(9,996)	(251)	305,674
Foreign exchange	(3,356)	(5,198)	(558)	–	(9,112)
Finance charges	92,112	1,141	(5)	–	93,248
Equity in earnings of subsidiaries	(360,468)	–	–	360,468	–
Earnings (loss) before tax	235,015	356,675	(9,433)	(360,719)	221,538
Income taxes	43,615	(15,431)	2,204	–	30,388
Net earnings (loss)	$ 191,400	$ 372,106	$ (11,637)	$ (360,719)	$ 191,150

Condensed Consolidating Statement of Earnings (Loss) 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 Comprehensive Income (Loss) for the Year ended December 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net earnings	$ 191,400	$ 372,106	$ (11,637)	$ (360,719)	$ 191,150
Other comprehensive income (loss)	(72,135)	98,105	10,720	370	37,060
Comprehensive income (loss)	$ 119,265	$ 470,211	$ (917)	$ (360,349)	$ 228,210

Condensed Consolidating Statement of Comprehensive Income (Loss) 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 Cash Flow for the Year ended December 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Cash provided by (used in):					
Operations	$ (207,558)	$ 693,757	$ (58,113)	$ –	$ 428,086
Investments	96,685	(458,810)	(68,951)	(95,459)	(526,535)
Financing	21,517	(229,688)	134,229	95,459	21,517
Effects of exchange rate changes on cash and cash equivalents	1,807	2,071	892	–	4,770
Increase (decrease) in cash and cash equivalents	(87,549)	7,330	8,057	–	(72,162)
Cash and cash equivalents, beginning of year	114,709	15,709	22,350	–	152,768
Cash and cash equivalents, end of year	$ 27,160	$ 23,039	$ 30,407	$ –	$ 80,606

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

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:

		2013		2012
Earnings before income taxes	**$**	**221,538**	$	27,677
Federal and provincial statutory rates		**25%**		25%
Tax at statutory rates	**$**	**55,385**	$	6,919
Adjusted for the effect of:				
Non-deductible expenses		**4,097**		15,975
Non-taxable capital gains		**(626)**		(546)
Income taxed at lower rates		**(31,118)**		(30,191)
Impact of foreign tax rates		**(5,957)**		(26,559)
Withholding taxes		**3,343**		4,009
Taxes related to prior years		**4,738**		1,053
Other		**526**		4,657
Income tax expense (recovery)	**$**	**30,388**	$	(24,683)

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

		2013		2012
Deferred income tax liability:				
Property, plant and equipment and intangibles	**$**	**749,760**	$	686,833
Partnership deferrals		**34,938**		60,906
Debt issue costs		**2,966**		1,561
Other		**6,569**		4,260
		794,233		753,560
Deferred income tax assets:				
Losses (expire from time to time up to 2033)		**285,438**		244,888
Long-term incentive plan		**14,800**		13,917
Other		**6,648**		9,163
Net deferred income tax liability	**$**	**487,347**	$	485,592

Included in the net deferred tax liability is $257.8 million (2012 – $242.6 million) of tax effected temporary differences related to the Corporation's United States operations. As at December 31, 2013, the Corporation had unrecognized net deferred tax assets related to its foreign operations of $7.2 million (2012 – $5.9 million).

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
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)
Effect of foreign currency exchange differences	(11,948)	–	(31)	4,878	–	167	(5)	(6,939)
December 31, 2012	686,833	60,906	4,260	(244,888)	1,561	(13,917)	(9,163)	485,592
Recognized in net earnings	28,176	(25,968)	2,312	(22,968)	1,405	(173)	2,587	(14,629)
Effect of foreign currency exchange differences	34,751	–	(3)	(17,582)	–	(710)	(72)	16,384
December 31, 2013	**$ 749,760**	**$ 34,938**	**$ 6,569**	**$ (285,438)**	**$ 2,966**	**$ (14,800)**	**$ (6,648)**	**$ 487,347**

On December 31, 2013, Precision had $30.9 million (2012 – $34.4 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, 2013 was interest and penalties of $10.1 million (2012 – $9.2 million).

Reconciliation of Unrecognized Tax Benefits

Year ended December 31,		**2013**		2012
Unrecognized tax benefits, beginning of year	**$**	**34,357**	$	34,300
Additions:				
Prior year's tax positions		**2,031**		2,033
Reductions:				
Prior year's tax positions		**(5,458)**		(1,976)
Unrecognized tax benefits, end of year	**$**	**30,930**	$	34,357

It is anticipated that approximately $0.5 million (2012 – $0.6 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
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
December 31, 2012	276,475,770	$ 2,251,982
Options exercised – cash consideration	362,045	2,432
– reclassification from contributed surplus	–	1,275
Issued on redemption of non-management directors' DSUs	141,856	1,238
Issued on exercise of warrants	15,000,000	48,300
December 31, 2013	**291,979,671**	**$ 2,305,227**

(c) Dividends
During 2013, the Corporation approved and paid dividends of $0.21 per common share (2012 – $0.05) for total payments of $58 million (2012 – $14 million). On February 12, 2014, the Board of Directors declared a dividend of $0.06 per common share payable on March 14, 2014 to shareholders of record on February 27, 2014.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Unrealized Foreign Currency Translation Gains (Losses)	Foreign Exchange Gain (Loss) on Net Investment Hedge	Accumulated Other Comprehensive Loss
December 31, 2011	$ (27,987)	$ (22,875)	$ (50,862)
Other comprehensive loss	(32,878)	23,205	(9,673)
December 31, 2012	(60,865)	330	(60,535)
Other comprehensive income	109,195	(72,135)	37,060
December 31, 2013	**$ 48,330**	**$ (71,805)**	**$ (23,475)**

NOTE 14. FINANCE CHARGES

		2013		2012
Interest:				
Long-term debt	**$**	**88,516**	$	85,113
Other		**1,356**		138
Income		**(967)**		(1,933)
Amortization of debt issue costs		**4,343**		4,120
Debt amendment fees		**–**		149
Other		**–**		(758)
Finance charges	**$**	**93,248**	$	86,829

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 2013 was $13.0 million (2012 – $11.1 million).

NOTE 16. RELATED PARTY TRANSACTIONS

Compensation of Key Management Personnel
The remuneration of key management personnel is as follows:

		2013		2012
Salaries and other benefits	**$**	**6,752**	$	6,988
Equity settled share based compensation		**3,433**		3,257
Cash settled share based compensation		**8,051**		4,872
	$	**18,236**	$	15,117

Key management personnel are comprised of the directors and executive officers of the Corporation. Certain executive officers have entered into employment agreements with Precision that 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 10 years while the vehicle leases are typically for terms of between three and four years. Expected non-cancellable operating lease payments are as follows:

		2013		2012
Less than one year	**$**	**16,833**	$	15,561
Between one and five years		**41,258**		41,898
Later than five years		**15,714**		23,161
	$	**73,805**	$	80,620

Three 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:

		2013		2012
Operating leases	**$**	**19,578**	$	19,075
Sub-lease recoveries		**(1,024)**		(583)
	$	**18,554**	$	18,492

(b) Capital Commitments
At December 31, 2013 the Corporation had commitments to purchase property, plant and equipment totaling $178.8 million (2012 – $157.5 million). Payments of $178.8 million for these commitments are expected to be made in 2014.

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:

		2013		2012
Net earnings – basic and diluted	**$**	**191,150**	$	52,360

(Stated in thousands)	**2013**	2012
Weighted average shares outstanding – basic	**277,583**	276,276
Effect of share warrants	**9,327**	9,418
Effect of stock options and other equity compensation plans	**971**	933
Weighted average shares outstanding – diluted	**287,881**	286,627

NOTE 19. BUSINESS ACQUISITIONS

In 2012 a contingent liability from a previous acquisition was settled, resulting in a $758 thousand recovery in the statement of earnings and a $25 thousand increase to goodwill.

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, coil tubing units, oilfield equipment rental, camp and catering services, and wastewater treatment units.

2013	**Contract Drilling Services**	**Completion and Production Services**	**Corporate and Other**	**Inter-Segment Eliminations**	**Total**
Revenue	**$ 1,719,910**	**$ 323,353**	**$ –**	**$ (13,286)**	**$ 2,029,977**
Operating earnings	**361,447**	**28,402**	**(84,175)**	**–**	**305,674**
Depreciation and amortization	**292,217**	**32,630**	**8,312**	**–**	**333,159**
Total assets	**3,837,919**	**590,992**	**150,212**	**–**	**4,579,123**
Goodwill	**200,217**	**112,139**	**–**	**–**	**312,356**
Capital expenditures	**446,566**	**83,470**	**5,768**	**–**	**535,804**

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

* Excludes business acquisitions

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

2013	**Canada**	**United States**	**International**	**Inter-Segment Eliminations**	**Total**
Revenue	**$ 1,002,199**	**$ 901,246**	**$ 137,681**	**$ (11,149)**	**$ 2,029,977**
Total assets	**2,082,958**	**2,006,519**	**489,646**	**–**	**4,579,123**

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

During the year ended December 31, 2013, no one individual customer accounted for more than 10% of the Corporation's total revenue. For 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 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 $19.6 million of the trade receivables amount at December 31, 2013 (2012 – $23.0 million).

The movement in the allowance for doubtful accounts during the year was as follows:

		2013		2012
Balance at January 1	**$**	**12,187**	$	12,179
Impairment loss recognized		**325**		348
Amounts written off as uncollectible		**(1,172)**		(174)
Impairment loss reversed		**(138)**		–
Effect of movement in exchange rates		**501**		(166)
Balance at December 31	**$**	**11,703**	$	12,187

The ageing of trade receivables at December 31 was:

	2013		2012	
	Gross	**Provision for Impairment**	Gross	Provision for Impairment
Not past due	**$ 177,141**	**$ –**	$ 197,194	$ –
Past due 0-30 days	**98,529**	**–**	100,217	–
Past due 31-120 days	**28,897**	**–**	27,861	–
Past due more than 120 days	**21,584**	**11,703**	15,016	12,187
	$ 326,151	**$ 11,703**	$ 340,288	$ 12,187

(b) Interest Rate Risk
As at December 31, 2013 and 2012, all of Precision's long-term debt, with the exception of the secured revolving credit facility, 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, a 100 basis point change in interest rates would change the annual interest expense by $0.3 million (2012 – $nil).

(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:

	2013		2012	
	Canadian Operations(1)	**U.S. Operations**	Canadian Operations(1)	U.S. Operations
Cash	**$ 995**	**$ 53,327**	$ 39,693	$ 61,515
Accounts receivable	**26**	**290,995**	56	237,370
Accounts payable and accrued liabilities	**(13,385)**	**(180,626)**	(13,028)	(184,593)
Long-term liabilities, excluding long-term incentive plans	**–**	**(16,770)**	–	(17,909)
Net foreign currency exposure	**$ (12,364)**	**$ 146,926**	$ 26,721	$ 96,383
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on net earnings	**$ 124**	**$ –**	$ 267	$ –
Impact of $0.01 change in the U.S. dollar to Canadian dollar exchange rate on comprehensive income	**$ –**	**$ 1,469**	$ –	$ 964

(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, 2013:

	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt	$ –	$ –	$ –	$ –	$ 29,781	$ 1,316,780	$ 1,346,561
Interest on long-term debt (1)	87,176	87,176	87,176	87,176	87,087	170,394	606,185
Commitments	195,589	14,061	11,373	8,467	7,357	15,714	252,561
Total	$ 282,765	$ 101,237	$ 98,549	$ 95,643	$ 124,225	$ 1,502,888	$ 2,205,307

(1) Interest has been calculated based on debt balances, interest rates and foreign exchange rates in effect as at December 31, 2013 and excludes amortization of long-term debt issue costs.

Fair Values

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximates 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, 2013 was approximately $1,403 million (2012 – $1,330 million).

Financial assets and liabilities recorded or disclosed at fair value in the consolidated balance sheet are categorized based on 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, 2013 and 2012 these ratios were as follows:

		2013		2012
Long-term debt	**$**	**1,323,268**	$	1,218,796
Shareholders' equity		**2,399,343**		2,171,300
Total capitalization	**$**	**3,722,611**	$	3,390,096
Long-term debt to long-term debt plus equity ratio		**0.36**		0.36

As at December 31, 2013 liquidity remained sufficient as Precision had $80.6 million (2012 – $152.8 million) in cash and access to a US$850.0 million senior secured revolving credit facility (2012 – US$850.0 million) and $82.5 million (2012 – $79.8 million) secured operating facilities. As at December 31, 2013, US$28 million (2012 – US $nil) was drawn on the US$850 million secured revolving credit facility with availability further reduced by US$28.6 million (2012 – US$26.8 million) in outstanding letters of credit. Availability of the $40 million and US$25 million secured operating facilities were reduced by outstanding letters of credit of $17.3 million (2012 – $18.9 million) and US$0.2 million (2012 – US$ nil), respectively. There was no amount drawn on the US$15 million secured operating facility.

NOTE 23. SUPPLEMENTAL INFORMATION

Components of changes in non-cash working capital balances are as follows:

		2013		2012
Accounts receivable	**$**	**(23,110)**	$	61,052
Inventory		**1,658**		(6,707)
Accounts payable and accrued liabilities		**(22,682)**		(111,333)
	$	**(44,134)**	$	(56,988)
Pertaining to:				
Operations	**$**	**(33,887)**	$	36,474
Investments	**$**	**(10,247)**	$	(93,462)

The components of accounts receivable are as follows:

		2013		2012
Trade	**$**	**314,448**	$	328,101
Accrued trade		**152,768**		125,035
Prepaids and other		**82,481**		56,411
	$	**549,697**	$	509,547

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

	2013	2012
Accounts payable	**$ 148,081**	$ 146,234
Accrued liabilities:		
Payroll	**81,586**	79,978
Other	**103,171**	107,681
	$ 332,838	$ 333,893

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 $324.8 million and $8.3 million (2012 – $495.2 million and $4.8 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:

	2013	2012
Wages, salaries and benefits	**$ 773,901**	$ 795,243
Purchased materials, supplies and services	**589,394**	556,103
Share-based compensation	**27,849**	18,603
	$ 1,391,144	$ 1,369,949
Allocated to:		
Operating expense	**$ 1,248,637**	$ 1,243,301
General and administrative	**142,507**	126,648
	$ 1,391,144	$ 1,369,949

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 and is included in long-term income tax recoverable on the balance sheet.

In June 2013 a wholly owned subsidiary of the Corporation lost a tax appeal in the Ontario Superior Court of Justice related to a reassessment of Ontario income tax for the subsidiary's 2001 thru 2004 taxation years. The Corporation has appealed the decision to the Ontario Court of Appeal and expects this appeal to be heard in 2014. Despite the decision in the Superior Court, management believes it is more likely than not that the Corporation would prevail on appeal. Should the Corporation lose on appeal, approximately $55 million of the long-tern income tax recoverable related to this issue would be expensed.

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	
		2013	2012
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