Precision Drilling Corporation

TECHNICAL EXPERTISE AND SERVICE COMBINE TO FORM A LEADING, ENERGY SERVICE COMPANY

1996

ANNUAL REPORT

Precision Drilling Corporation

Service describes Precision's business as well as the single most important factor behind its 11-year record of growth.

Precision's history is one of providing drilling services for western Canadian petroleum companies. Commitment to quality service and a belief in the value of building long term relationships have combined with strategic acquisitions to consistently position Precision as the leading drilling contractor in Canada.

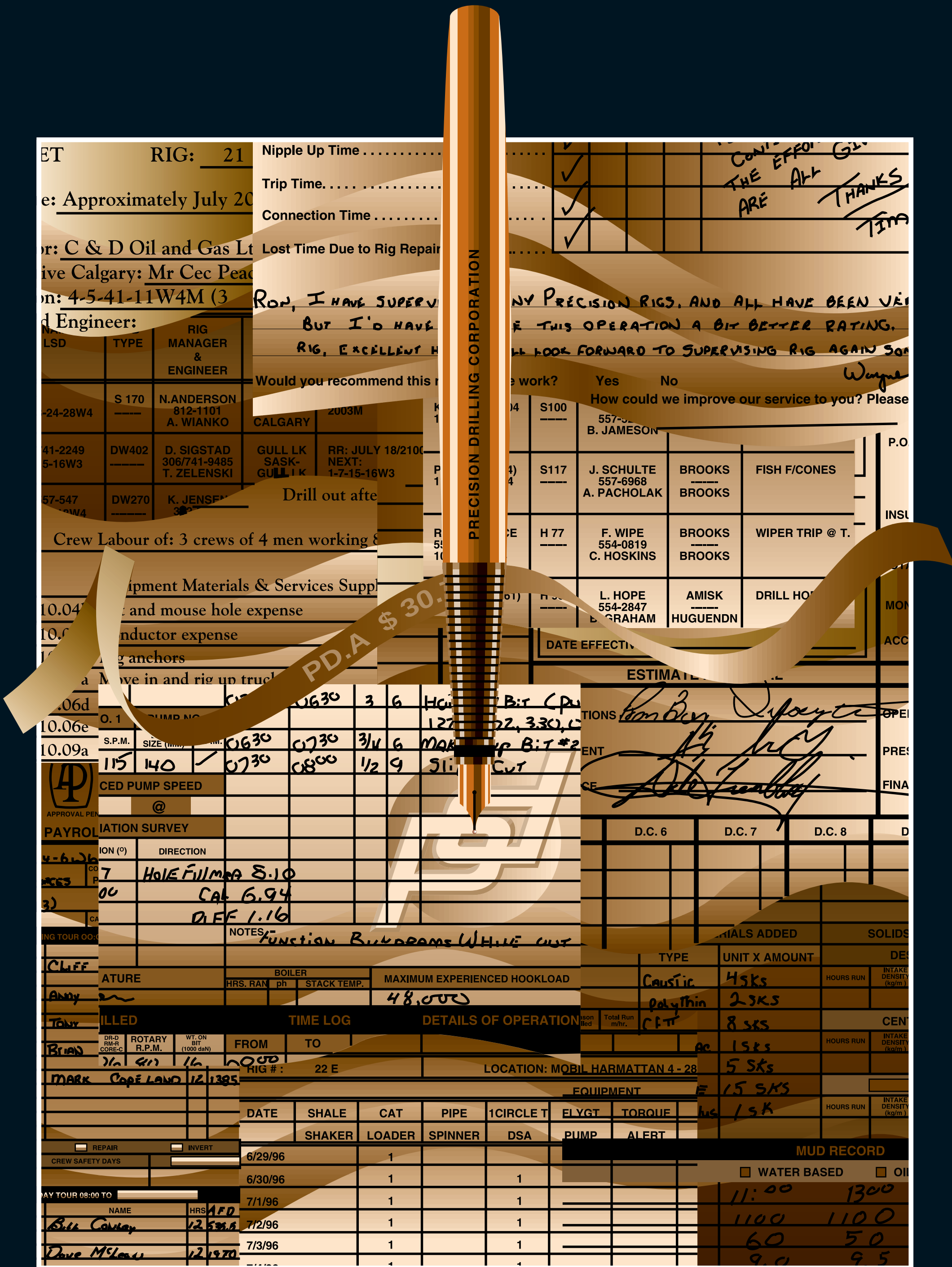
A 1996 acquisition begins a new era as complementary energy services now form a significant contributor to the Company's revenue and earnings base. But, at the core, excellence in drilling and service form Precision's reputation.

In this Report, we focus in on the core of our business. Through illustrations and script, we describe the technical achievement of an unmatched expertise combined with the largest rig fleet in Canada. Most important, we describe our approach to service — which we believe to be of equal importance to our capability.

Annual Meeting

The Annual General Meeting of the Shareholders of Precision Drilling Corporation will be held in the McMurray Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta at 3:30 p.m. (Calgary time) on Thursday, September 19, 1996. Shareholders are encouraged to attend and those unable to do so are requested to complete the Form of Proxy and forward it at their earliest convenience.

Contents



← Service First →

Western Canada's oilpatch covers a geography ranging from remote, Rocky Mountain locations, to lakes and rivers to bald prairie. The geology is equally broad, from 5,000-metre-deep faults to thin, slices of porous sand only accessed effectively by drilling horizontally. It takes a good working relationship with our customers to develop the best strategy and apply the appropriately designed equipment to serve the purpose - in the most effective and efficient way. Only by applying our combined expertise do we begin to gear up and move a rig to a site.

FINANCIAL PERFORMANCE

Years ended April 30 *($000's except share data)*	**1996**	1995	Change
Revenue	**163,102**	178,597	-9%
Gross margin	**51,304**	56,178	-9%
Cash flow [(1)]	**28,170**	28,348	-1%
Per share	**3.32**	3.46	
Net earnings	**17,568**	16,886	+4%
Per share	**2.07**	2.06	
Shareholders' equity	**130,794**	66,951	+95%
Per share	**15.40**	8.17	
Net capital expenditures	**23,135**	11,822	+96%
Long term debt	**9,695**	1,440	+573%
Average number of shares outstanding	**8,494,201**	8,198,997	
Return on shareholders' equity	**13.4%**	25.2%	
Volume of shares traded	**8,416,227**	3,649,501	+131%
Average price per share	**16.92**	13.55	+25%

OPERATING PERFORMANCE

	Precision	Industry	Market Share
Number of drilling rigs	83	460	18.0%
Number of operating days (spud to release)	16,483	86,406	19.1%
Wells drilled	2,700	11,009	24.5%
Metres drilled	3,008,014	12,671,985	23.7%
Rig utilization rate (%)	54.1	51.3	

QUARTERLY RESULTS

($000's except per share amounts)	Q1	Q2	Q3	Q4	**1996**
Revenue	32,510	36,487	49,254	44,851	**163,102**
Cash flow [(1)]	4,656	5,871	10,622	7,021	**28,170**
Per share	0.57	0.71	1.28	0.76	**3.32**
Net earnings	2,641	3,362	7,807	3,758	**17,568**
Per share	0.32	0.41	0.94	0.40	**2.07**

(1) Funds provided by operations combined with dividend income.

EARNINGS OVER LAST EIGHT QUARTERLY PERIODS

	Gross revenue ($000's)	Earnings before taxes and minority interest ($000's)	Earnings before taxes and minority interest per share ($)	Net earnings ($000's)	Net earnings per share ($)
July 31, 1994	36,223	4,562	0.55	2,649	0.32
October 31,1994	45,781	7,655	0.95	3,378	0.42
January 31, 1995	56,090	14,892	1.80	7,657	0.93
April 30, 1995	40,503	6,355	0.78	3,202	0.39
July 31, 1995	32,510	4,367	0.53	2,641	0.32
October 31, 1995	36,487	5,616	0.68	3,362	0.41
January 31, 1996	49,254	13,278	1.60	7,807	0.94
April 30, 1996	44,851	7,004	0.75	3,758	0.40

SHARE TRADING SUMMARY

(dollars)	High	Low	Close	Volume	Value
1995					
July 31, 1994	17.75	16.00	17.25	1,020,071	17,318,949
October 31, 1994	17.38	14.50	15.00	769,410	12,975,189
January 31, 1995	15.00	9.00	12.25	376,160	4,645,277
April 30, 1995	13.88	7.75	13.88	1,483,860	14,494,668
Total	17.75	7.75	13.88	3,649,501	49,434,083
1996					
July 31, 1995	**16.50**	**13.00**	**14.00**	**2,530,143**	**38,630,602**
October 31, 1995	**15.75**	**13.25**	**15.75**	**1,403,379**	**19,200,086**
January 31, 1996	**19.00**	**14.50**	**18.50**	**2,820,198**	**47,261,015**
April 30, 1996	**27.75**	**18.75**	**25.50**	**1,662,507**	**37,301,152**
Total	**27.75**	**13.00**	**25.50**	**8,416,227**	**142,392,855**

TO OUR SHAREHOLDERS

Through continual and concerted efforts, throughout the Company, Precision remained in a solid financial and leading market position at April 30, 1996. In fact, results very nearly matched the prior year's, even with reduced industry activity levels. We took advantage of the year end financial position to close an acquisition in the first quarter of the 1997 fiscal year. The acquisition of EnServ Corporation was the largest in our history and adds strategic opportunities to further diversify and strengthen our business. We will continue to refine and augment the Company in an effort to maintain our market-leading position in traditional and newly acquired areas of business.

Fiscal 1996 in Review

Revenue for the fiscal year decreased nine percent to $163.1 million, down from $178.6 million the previous year. We are pleased to report that cash flow amounted to $28.2 million, or $3.32 per share for the current fiscal year compared to cash flow of $28.3 million or $3.46 per share for fiscal 1995. Earnings improved four percent to $17.6 million or $2.07 per share in comparison with $16.9 million or $2.06 per share last year. The Company maintained a strong balance sheet with $67.0 million in working capital, and an improved debt-to-equity ratio of 0.11 to 1 as at April 30, 1996.

Precision has completed eight SAGD (steam-assisted gravity drainage) wells for two customers and has a further 12 wells to complete this year for three additional customers. The transformation of a slant electric rig, expanded with advanced pull-down technology and superior pipehandling capability, renders obsolete all other SAGD drilling equipment available in the world today.

The Company completed the construction of four of the newest generation of engineered slant rigs designed for heavy oil drilling. These rigs are under four-year contracts. Slant rigs have become world class heavy oil mining machines and are expected to be operated for the next several decades on an on-going basis.

With the revenues from the four slant rigs constructed during last year, revenues from additional conventional drilling rigs which will be added throughout the coming year, along with anticipated expansion of the drilling business generally, revenue increases of at least 15 percent are anticipated for 1997.

Today's economics for increasing the fleet favour designing and building new rigs rather than purchasing a rig and upgrading it. New rigs capable of drilling up to 3,000 metres, can be designed for a specific application and built for $4.0 million to $5.0 million. In contrast, a rig which may be 20 to 25 years old and have a market value of $1.5 million, requires $1.0 to $2.0 million in additional investment for refurbishments to bring it to the status of a new rig. The advantages to opting for new construction are: a new rig, with the latest technology from the ground up, would provide the customer with improved performance; in addition, unless the rig can be acquired through an asset purchase, the construction of a new rig provides a more tax effective investment.

EnServ Acquisition

The purchase of EnServ Corporation will enable Precision to expand its capabilities to include a wider range of oil and gas services which are generally complementary to its existing businesses. EnServ is an energy services company comprised of four service areas: natural gas compression, well servicing, rentals and processing related services. Precision was able to acquire EnServ for a purchase price of $228 million, partially raised through an equity issue and the issuance of shares to EnServ shareholders totaling approximately 5.5 million shares. The acquisition brought with it some debt, but still resulted in a conservative debt to equity ratio of .35 to one at May 31, 1996.

Precision benefits from EnServ's strong sales in each of its four operating areas which will diversify Precision's base with revenue generated counter-cyclically to Precision's traditional revenue source base. Combined with EnServ's assets, Precision becomes a company with revenue capability anticipated for 1997 of approximately $400 million.

Precision is in the process of assimilating the assets of EnServ and conducting a detailed review of operating and management processes ensuring appropriate management of the larger asset base. Initial estimates suggest 10 percent growth from the EnServ business unit should be realized in the first year following the acquisition.

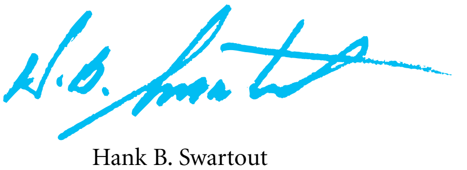
Outlook

The horizon looks very positive for the service industry and for Precision in particular. Activity levels are anticipated to be high through 1997 which, in turn, supports the service sector. Precision's added business lines and continued growth from its traditional business suggest strengthening performance for the Company.

The shape of the Company was changed with the EnServ transaction, and that led to a change to our Board of Directors. Mr. Michael M. Kanovsky has stepped down from the Board as a result of a business conflict with our new business lines. His advice over the years has had an impact on the Board and the Company, making both better for his input. We are sorry that his departure was necessitated by the transaction. Previously Mr. Mervin A. Canfield elected to step down from the Board to pursue other business interests. We wish him well in his endeavors. In their place, two new members have joined the Board, Mr. R. T. (Tim) Swinton, who serves as Chairman, President and CEO of EnServ, is Vice Chairman of Precision's Board. Mr. Robert J.S. Gibson a former director of EnServ has also joined the Board, bringing the Board complement to six. We welcome their input, representing the interests of our shareholders.

The leadership role played by our Board would be ineffective without the substantial contribution made by the employees of Precision. The market leadership position we hold is in large part due to the dedication and customer focus maintained by a talented group of employees. In turn, these people are supported by a sizeable network of contract people and suppliers, many of whom have long-standing ties with Precision. Their combined efforts are very much appreciated.

On behalf of the Board of Directors,



Hank B. Swartout
Chairman of the Board, President, and Chief Executive Officer
Calgary, Alberta
August 6, 1996

Service First

The business of drilling services requires much more than drilling equipment and expertise. Often underrated are critical stages including establishing and preparing a site, moving and setting-up a rig and reversing the process once drilling is completed. Successful companies pay as much attention to the stages between drilling as they do to drilling itself.

Mission Statement

Precision Drilling Corporation is an innovative, performance oriented service company. We are committed to providing technologically advanced equipment, a safe operating environment and quality service to the petroleum industry.

We aspire to satisfy the requirements of our customers and shareholders worldwide, through the dedication and teamwork of each employee. We will set and achieve high standards by professionally managing growth and operations in an ethical manner.

Maximizing Daylight Hours

The key role played by Precision's suppliers is evident at the very start of a job. Truckers come through for Precision by working through the night to give as much of the daylight hours as possible to the rig and its crew. Often on the road by 2 a.m. to reach a site by dawn, efficient transportation is key to utilization rates and financial performance.

But truckers also need a site to go to. Site preparation is another critical preparatory stage that ensures an appropriate set-up of drilling and other equipment, and, as important, that land use is appropriate with minimal interruption to the environment or other land uses in the area.

Review of Operations

Precision maintained its industry-leading position in 1996, and subsequent to year-end completed an acquisition that begins a new era for the Company. Precision's record for drilling the most wells and the greatest total metreage was maintained in a year that was generally less active for the petroleum industry. An extensive program of upgrading rigs was implemented in the continual effort to improve efficiency and technical specifications to meet customer needs. Precision will continue with its focus, while also developing its assets and operating units acquired through the EnServ Corporation.

Drilling Operations

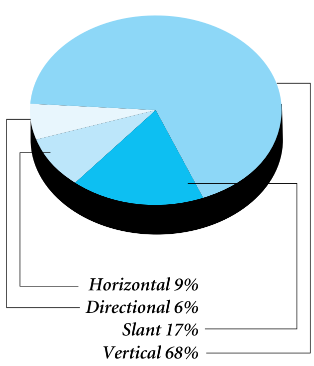
Geographic Positioning Streamlined

Precision's drilling services are continually being evaluated to ensure customer needs are met, ideas and knowledge are shared throughout the Company and that standards of service quality and safety practices are consistent. In 1996, service centres were focused in two areas. The Calgary Operations Centre primarily operates shallow gas, medium depth and slant rigs, while the Nisku Operations Centre primarily operates medium depth to deeper rigs, including slant and electric rigs. With two centres, the opportunity for close communication and shared information is maximized, particularly as both centres have equivalent service capability and equipment.

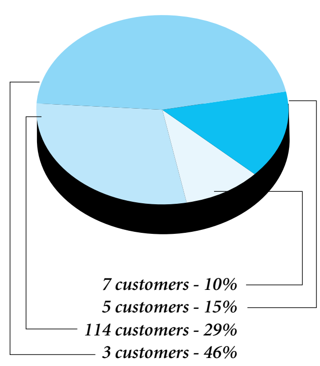
Drilling Depth Capability

	Precision		Industry		Market
	# of Rigs	**% of Fleet**	# of Rigs	% of Fleet	Share
0 - 950 metres	**4**	**4.8**	17	3.7	23.5%
951 - 1,850 metres	**20**	**24.1**	94	20.4	21.3%
1,851 - 2,400 metres	**35**	**42.2**	154	33.5	22.7%
2,401 - 3,200 metres	**15**	**18.1**	115	25.0	13.0%
3,201 - 4,000 metres	**5**	**6.0**	34	7.4	14.7%
Over 4,000 metres	**4**	**4.8**	46	10.0	8.7%
Total	**83**	**100.0**	460	100.0	18.0%

1996 Well Type Breakdown



1996 Revenue Base

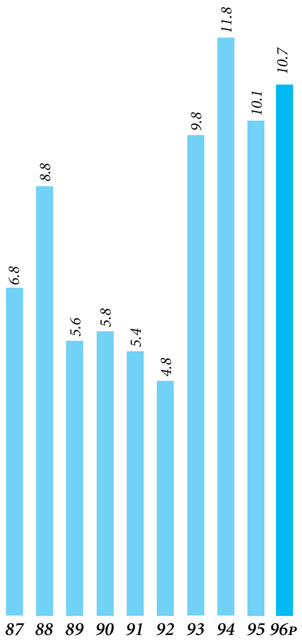


Drilling Statistics
(Year Ended April 30th)

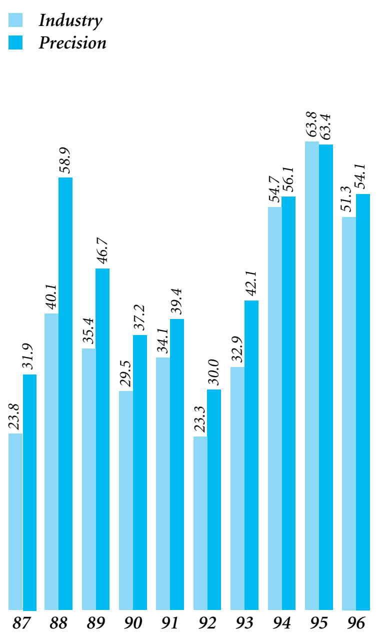
	1996	1995	1994	1993	1992	1991	1990
Metres (000's)	**3,008**	3,158	2,196	1,054	725	795	716
Wells	**2,700**	2,893	2,058	892	575	600	513
% of Wells Drilled in Canada	**24.5**	23.9	19.8	14.4	13.0	10.0	10.0

Source: Daily Oil Bulletin

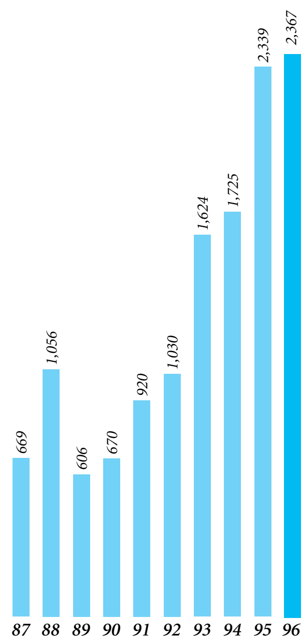
Drilling Activity
Thousands of wells drilled annually in western Canada



Rig Utilization Rate
Percent



Rig Profit per Day
Dollars



Leading Market Position Maintained

Precision's increasing portion of the overall market results in a dove-tailing of industry and Company utilization rates. This fact makes all the more significant the areas where Precision out-performs the industry.

Rig Utilization Rate
(Year Ended April 30th)

Percent	1996	1995	1994	1993	1992	1991	1990
Precision	**54.1**	63.4	56.1	42.1	30.0	39.4	37.2
Industry Average	**51.3**	63.8	54.7	32.9	23.3	34.1	29.5

Source: CAODC

Marketing Strengthened

Marketing activity was enhanced through the year by significant changes in the approach initiated in the previous year. The change entailed assigning a multi-disciplinary team to each Precision customer in conjunction with upgraded computerization to better manage and communicate customer profile information. The impact of the changes were felt immediately, and with a full year of implementation, the structure continues to improve Precision's ability to anticipate and react to client needs.

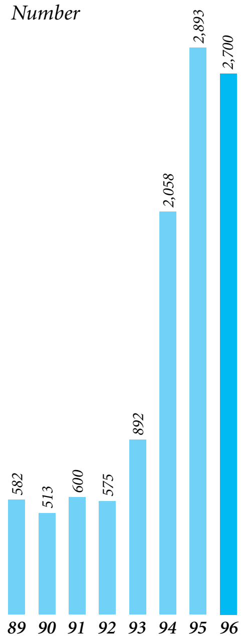
Drilling Record Continues

For the year ended April 30, 1996, Precision achieved a 54.1 percent utilization rate. The comparison of industry utilization rates to those for Precision reflects two factors. The overall high utilization rate is indicative of an active year for the producing companies. As well, Precision's size as a portion of the overall market results in Company statistics forming a significant part of the industry statistics.

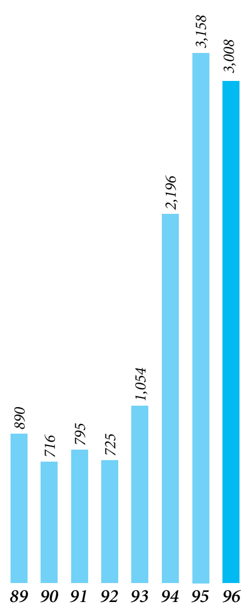
Precision drilled three million metres in 2,700 wells, representing approximately 24 percent of the total number of wells drilled in western Canada for the year ended April 30, 1996. A full 80 percent of Precision's rigs are contracted through to fiscal year end 1997. The remaining 20 percent are in demand by smaller operators for shorter duration projects. It is expected that utilization will continue at high rates through 1997.

Specialty drilling is a growing portion of the market and Precision continues to dominate in these areas. Precision is responsible for 92 percent of slant, 16 percent of directional and 24 percent of horizontal drilling.

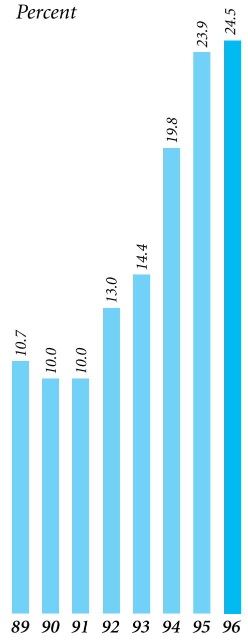
Wells Drilled
Number



Metres Drilled
(000's)



Market Share
Percent

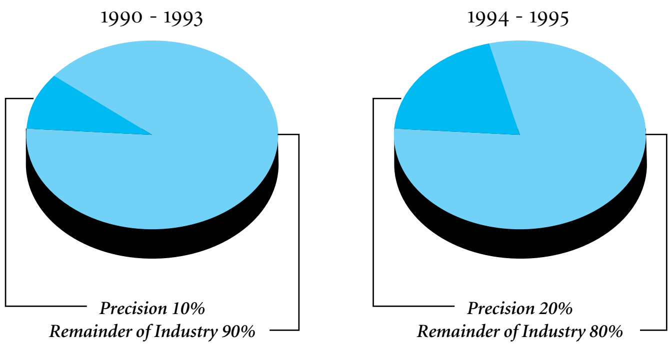


Maximizing Performance and Opportunity

While Precision has no influence over the activity levels in the marketplace, consistent and comprehensive monitoring of Precision's marketing effectiveness and cost base through the year ensures that market share and profitability are maximized.

Manpower Utilization

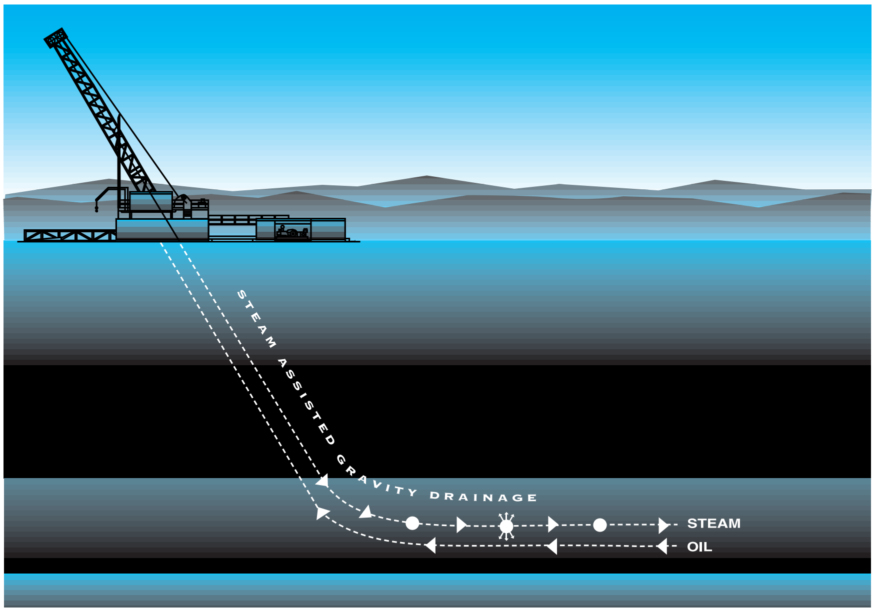
Man Hours Worked per Calendar Year



Investing in Rigs, People and the Environment

Resources, including capital, time, technical expertise and commitment from senior management are invested in our equipment and operating systems. In all endeavors, the objective is the same: improving our ability to serve our customers.

Rig investment involved reconfiguring rigs with rotary brakes on all draworks for safer, easier and more accurate drill string positioning. Installing boom arms, which significantly improve the transporting and rig set-up time of our rigs, is another on-going program.

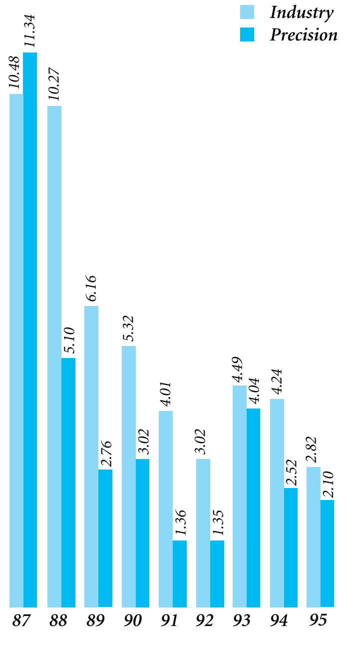


SAGD — Steam Assisted Gravity Drainage

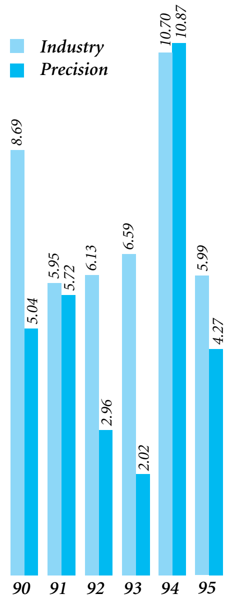
SAGD (steam-assisted gravity drainage, pronounced "sag-dee" in the industry) wells are an advancement that has a broad application in western Canada, and potentially in other producing regions worldwide. Precision has designed specialty equipment in conjunction with two western Canadian-based customers. Eight wells have been drilled in the 1995/96 drilling season with additional projects committed. This is expected to be an area of significant growth for Precision, and with the commitment of our customers, we will make continued investment in our expertise and equipment design to accommodate this application.

A commitment to safety training and improved communication throughout the Company are also important aspects of our business. Safety is a senior portfolio at Precision and it is considered key to each and every employee or contract worker's job description. Programs are intense during the spring months when weather and ground conditions curtail almost all drilling activity in much of western Canada. The scope of the program is reflected by the fact that 825 employees or contract workers participated in training programs during the year. The effectiveness of our safety training programs are measured in numerous ways, and in all measures we continually improve as we work towards the ultimate objective of zero lost time accidents or injuries. For calendar 1995, Precision had lower "Lost Time Frequency" and fewer instances requiring medical aid than the overall industry.

Lost Time
Accident Frequency
Compensible accidents per 200,000 man hours worked



Medical Aid Frequency
Accidents per 200,000 man hours worked



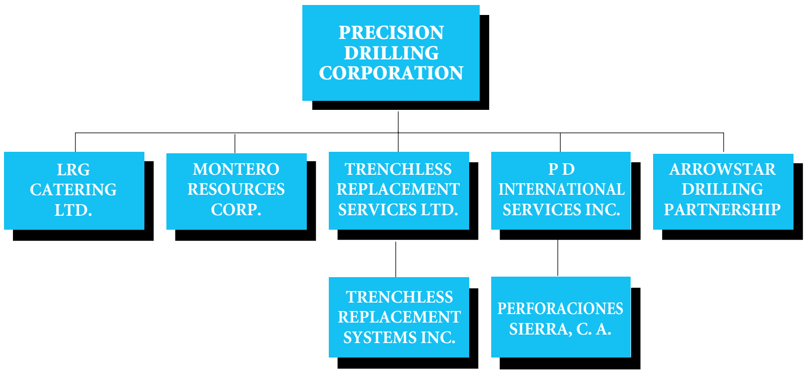
Training Efforts Reflected in Safety Statistics

While many market-related statistics for Precision are increasingly in line with the industry average, statistics which reflect safety practices show a significant margin over the industry as a whole. At Precision, investment in training programs is directly reflected in fewer lost time accidents, or those requiring medical aid.

Environmental issues are also significant in our business. In this area, Precision has given high priority to the management of the waste materials resulting from drilling. In response, new systems and administration are being implemented to more comprehensively track drilling and wellsite waste. Precision also encourages its people to participate in courses covering environmental practices and become active on industry association environmental committees.

SUBSIDIARIES

Precision holds direct and indirect interests in a number of subsidiary companies, all of which, with the exception of Trenchless Replacement Services carry out activities relating to the energy industry. Strategically, the investments offer either operating or financial advantages by complementing Precision's core businesses and revenue streams. The following diagram illustrates the relationships between Precision and each subsidiary at April 30, 1996.



LRG Catering Ltd.

LRG represents a natural fit for Precision by managing camps for on-site personnel in the field. Twenty-four camps were successfully operated through the 1995/96 season. Not only is LRG a strategically advantageous involvement for Precision, it is a steady performer with $6.6 million in gross revenues for both 1996 and 1995 fiscal years.

Operating quality camps is important in order to provide good working conditions for Precision employees and contract workers. LRG is noted throughout the service sector for its consistent, high quality.

Montero Resources Corp.

Montero has continued to grow with the successful investment of $3.3 million in oil and gas exploration and development projects during fiscal 1996, its second full year of activity. Gross revenue of $764 thousand was up from $130 thousand for 1995. Production passed the 130 barrels of oil equivalent per day level, and more importantly, significant increases to reserve values were achieved which are expected to contribute future revenue growth.

To date, Montero has invested approximately $5.8 million in land, seismic, drilling and production facilities. These investments were valued at approximately $7.9 million at April 30, 1996.

Montero's land holdings at year end 1996 and 1995 were as follows:

	1996		1995	
(hectares)	Gross	Net	Gross	Net
Developed	**5,312**	**590**	3,056	480
Undeveloped	**20,928**	**3,883**	10,832	1,708
	26,240	**4,473**	13,888	2,188

The total value of Montero's undeveloped lands at year end 1996 has been estimated at $1,030,000.

Montero's reserves were evaluated at year end by an independent engineering firm and are summarized as follows:

	1996 Working Interest Oil & NGL (mbbls)	**1996 Working Interest Sales Gas (mmcf)**	1995 Working Interest Oil & NGL (mbbls)	1995 Working Interest Sales Gas (mmcf)	Present Value Discounted @15% $Millions **1996**	Present Value Discounted @15% $Millions 1995
Proved Producing	**392.8**	**1,248**	126.6	14.9	**4,208**	1,713
Proved Non-Producing	**58.0**	**1,591**	87.6	419.9	**1,195**	3,496
Total Proved Producing and Non-Producing	**450.8**	**2,839**	214.2	434.8	**5,403**	5,209
Probable	**49.7**	**1,918**	3.1	13.8	**1,020**	123
Total	**500.5**	**4,757**	217.3	448.6	**6,423**	5,332

An objective of balancing production between liquids and gas was achieved during the year. Maintaining that balance is a continuing objective for Montero and with 26.2 thousand gross (4.5 thousand net) undeveloped hectares, this Company is well positioned for growth through its exploration and development programs.

Perforaciones Sierra C.A.

As a result of the purchase of shares from minority shareholders, Perforaciones Sierra C.A. is now an indirect, wholly owned subsidiary. With this change in structure, Precision is reorganizing that company to increase efficiency in order to improve financial performance. Expansion is being pursued at the same time, in order to tap into the opportunities created by the increasing activity in Venezuela.

Four slant drilling and one slant service rig are operated in Venezuela. The expansion opportunities result from the aggressive production targets set for the national oil companies of Venezuela, combined with the improvements to the economy which is attracting outside investment. The need for slant rig technology results from the high proportion of heavy oil reserves identified in the Orinoco Basin.

The area is anticipated to generate more revenue for Perforaciones Sierra, and with system and organization refinements, even better performance is targeted.

Other International Opportunities

China

After on-site evaluations and protracted negotiations, Precision has agreements in place for projects involving China. The opportunity has been created for Precision to purchase and re-distribute mud pumps and other rotary drilling equipment which are manufactured in China. The arrangements result in a cost savings on new equipment for Precision with Precision able to control quality, ensuring its standards and customer satisfaction are maintained.

Saudi Arabia

Providing rigs and crews to the Middle East is a new pursuit which is expected to create an opportunity for growth. The necessary registration and permits are in place allowing Precision, through a joint venture formed with a Saudi Arabian company, to bid on projects in that country.

TRS - Trenchless Replacement Services Ltd.

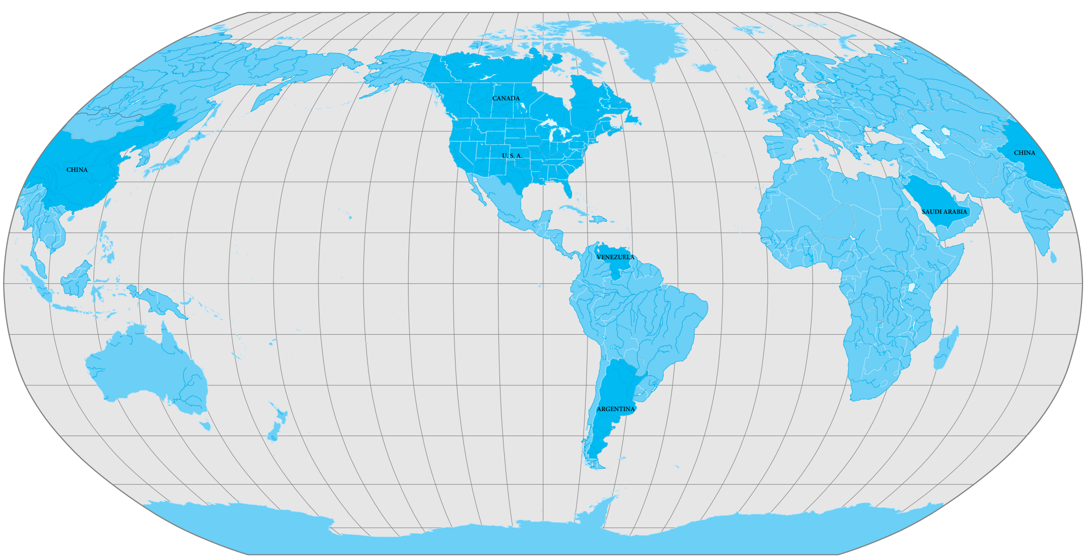
A wholly-owned subsidiary of Precision, TRS, develops, manufactures, licenses, sells and services proprietary trenchless equipment. Operating, manufacturing and engineering form the three activity areas for this company. Its product lines use oilfield technology adapted for underground pipe installation. TRS equipment can replace pipe, with the same or with larger diameter pipe, economically and with minimal environmental disturbance.

TRS technology is unique for its ability to bring massive hauling power to the trenchless replacement industry.

The TRS Hydrahaul "TM" system can bring as much as 225 tons of pipe-shattering strength to the pipe-bursting process. The Hydrahaul can burst and replace most large-diameter pipe and the trenchless replacement system creates minimal disruption to traffic and adjacent structures.

The Bore-Haul "TM" system uses high-power, horizontal boring for new pipe installation. Once the bore hole is complete, the system installs the new pipe by using 100 tons of pulling force to insert the pipe. This high performance machine can install pipe, on line and on grade, in most soil conditions.

TRS markets its equipment in Asia, Australia, South America and the United Kingdom.



Expansion of Services Coincides with Geographic Expansion

Precision continues to realize most of its revenue from western Canada but is positioned to grow in areas throughout North and South America

Performance in all Measurable Statistics

While the fundamentals of drilling haven't changed since the beginning of the oil boom in the early part of the century, the technological advances continue to improve efficiency and control. Precision continues to be on the leading edge, investing in improving both technology and expertise. Directional drilling has evolved from a virtually haphazard technique to one of absolute precision. The SAGD application is another growing area of interest that demands accuracy and control to optimize recovery of otherwise non-flowing reservoirs.

Strong markets for conventional and special application drilling are expected to generate growth opportunities over the long-term for Precision. Dedication to new technologies, drilling applications and expanding into other services required in the energy sector will continue to characterize Precision's approach.

Drilling with Quality Equipment and Expertise

In a competitive industry, having available the right equipment — equipment that is right for the job but that is also efficiently moved and assembled — when customers need it is crucial to success. Precision has 80% of its fleet booked through the 1996/97 drilling season. Efficient rig use is key to being able to accommodate fluctuations in demand. Drilling activity is not only driven by the prices of oil and gas, but by other factors such as the pressure of finishing a drilling program before spring break-up, before the expiry of a lease or a tax benefit from flow-through share financing — all of which can drive a sudden increase in drilling activity. Precision works at its efficiency to accommodate as much demand as possible with its fleet of rigs and experienced crews.

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

This Management's Discussion and Analysis focuses on key statistics from the Consolidated Financial Statements, and it pertains to known risks and uncertainties relating to the drilling industry. This discussion should not be considered all inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, it is not guaranteed that other elements may or may not occur which will affect the Company in the future. In order to obtain the best overall perspective, this Discussion should be read in conjunction with the material contained in other parts of this annual report and with the Company's audited financial statements for the years ended April 30, 1996 and 1995, together with the related notes.

Our 1996 Consolidated Financial Statements include the operations of the following companies:

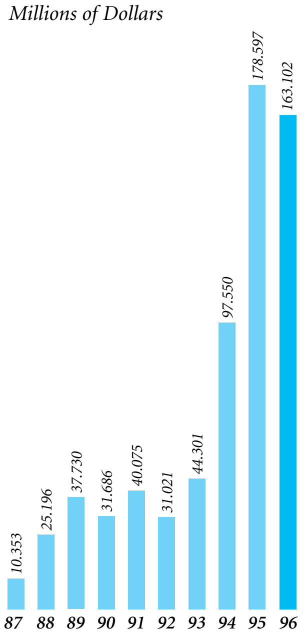
- Precision Drilling Corporation
- Arrowstar Partnership
- LRG Catering Ltd.
- Montero Resources Corp.
- Trenchless Replacement Services Ltd.
- Perforaciones Sierra, C.A. through P. D. International Services Inc.

The Canadian contract drilling business is the primary operating business of Precision. It represented 92% of total revenue and 94% of net earnings. The Company has maintained a very strong balance sheet and is committed to enhance its ability to add value for its shareholders. In March 1996, the Company successfully raised $44.0 million through a common share issue and in May 1996 completed the acquisition of EnServ Corporation for a price of $228.0 million. The Company has sustained its role as a leader in the drilling industry with an accumulation of high quality property and equipment that is continually maintained to meet the Company's high standards. Precision continues to be the largest drilling contractor in Canada with 83 operating rigs. Precision also owns 20 self-contained camps, 157 vehicles, three hydrahauls, one trenchless lateral replacement machine, one bore-haul, and oil and gas mineral rights.

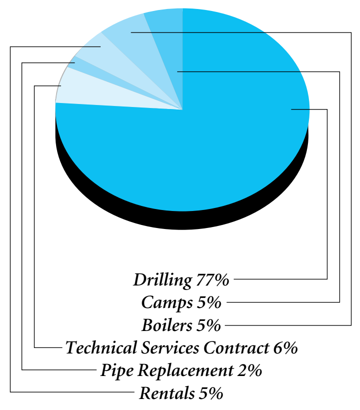
Revenue

Precision's revenue is directly related to rig utilization rates and the level of drilling activity in western Canada. As a result of the decline in drilling activity generally during the early part of the 1996 fiscal year, gross revenue decreased by $15.5 million or 9% to $163.1 million for the year ended April 30, 1996 from $178.6 million in the previous year. Precision's spud to rig release days were 16,483 this year with revenue per day of approximately $9,895. This compares to 18,874 rig days in 1995 with revenues of $9,460 per day. The revenue of subsidiaries climbed by 61% to $13.5 million. This increase was primarily related to the operations in Venezuela with the other subsidiaries remaining relatively constant.

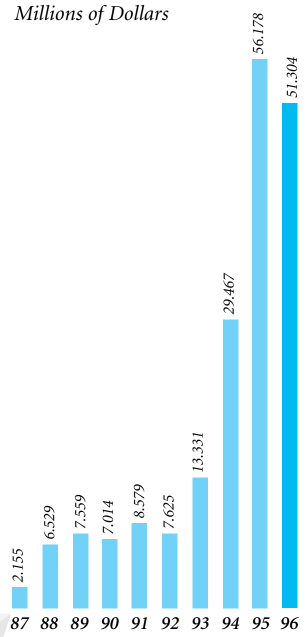
Gross Revenue
Millions of Dollars



1996 Revenue by Source



Gross Margin
Millions of Dollars



Expenses

Operating

Operating expenses for the 1996 financial year were lower by 9% to $111.8 million from $122.4 million in the 1995 fiscal year. This decrease in expenses related to the corresponding decline in activity levels. On a per day basis, expenses increased from $6,485 to $6,785 day. This increase can be attributed to the higher operating cost of equipment which handles specialized drilling applications. Benefits continue to be realized from on-going programs of improving operating efficiencies through improved computerized controls and increased automation at the rig sites.

General and Administrative

General and administrative expenses of $12.3 million for the year ended April 30, 1996, were up 2% from the $12.1 million in 1995. Salaries and benefits accounted for 58% of total expenses, unchanged from the previous year. The slight increase was caused by the growth of activities of the international operations and the re-organization costs relating to the consolidation to two operation centres.

Depreciation

Depreciation for the fiscal year 1996 was $7.7 million compared to $9.8 million in fiscal 1995. Rig equipment is depreciated based on its estimated life in drilling days with other assets being depreciated over their useful lives using a straight line or declining balance basis of calculation. Depreciation was lower due to the decline in drilling activity, the change in the mix of the operating rigs and the change in the base days used to calculate rig depreciation.

Foreign Exchange

A foreign exchange loss was incurred by the indirectly owned Venezuelan subsidiary, Perforaciones Sierra, C.A. The Venezuela government imposed exchange rate control policies in 1994 and fixed the exchange rate at approximately 125 bolivars to the Canadian dollar. During the first week of December 1995, the government reset the exchange rate to approximately 210 bolivars to the dollar and finally in April 1996 allowed the exchange rate of the bolivar to float. Its value fell to approximately 340 bolivars to the dollar, resulting in currency translation losses which are included in determining net income. It is uncertain if the Venezuelan government will reset the exchange rate or continue to allow the bolivar to float. Venezuela operations are being closely monitored to mitigate future losses resulting from fluctuations in the exchange rate.

Interest

Interest on long-term debt decreased due to the repayment early in the first quarter of a term loan which helped finance the 1994 acquisition of Geosearch Drilling. The repayment, coupled with the orderly drawdown of project term loans used to finance the construction of four new slant rigs enabled the Company to reduce long term interest costs to $0.7 million from $1.2 million last fiscal year. The strong working capital position maintained throughout the year and the receipt of proceeds from the share issue in March 1996 helped reduce operating debt and, therefore, other interest costs.

Dividend

A dividend in the amount of $0.4 million was received in the first quarter from Western Rock Bit Company Limited. This dividend is not taxable to the Company and represents a small portion of the net earnings. Subsequent to year-end a $0.6 million dividend was received from this company.

Taxes and Minority Interest

The Company's consolidated income tax expense fell to $12.5 million from $16.3 million in 1995, resulting in an effective tax rate of 41.3% compared to 48.9% in the previous year.

The lower income tax provision is primarily attributable to the utilization of $3.8 million in loss carry forwards on the restructuring of the TRS subsidiary in fiscal 1995 and different rates of taxes in foreign jurisdictions offset by non-deductible expenses and other items.

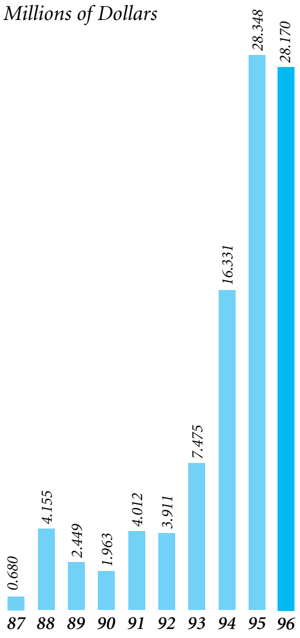
During the year the Company acquired the shares of the minority shareholders of the Venezuelan subsidiary, Perforaciones Sierra, C.A. This Company is now an indirect wholly owned subsidiary. The minority interest of $0.2 million represents the proportionate share of net earnings prior to the share purchases.

Net Earnings and Cash Flow

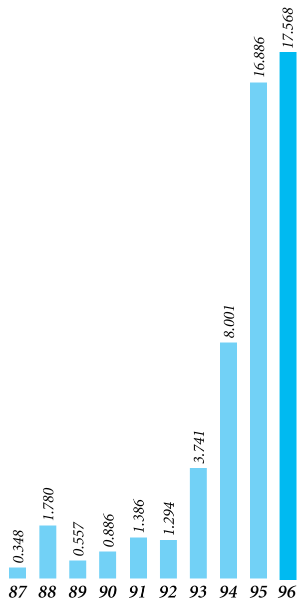
As forecasted in last year's report, the Company maintained its net earnings and cash flows at last year's levels. Net earnings were $17.6 million or $2.07 per share for the current year compared to the $16.9 million or $2.06 per share achieved last year. Cash flow (funds provided by operations combined with dividend income) was $28.2 million or $3.32 per share compared to $28.3 million or $3.46 share last year. These results reflect:

- increased focus on specialized drilling
- on-going maximization of operating efficiencies
- strong alliances with major operators, and
- expanding foreign operations

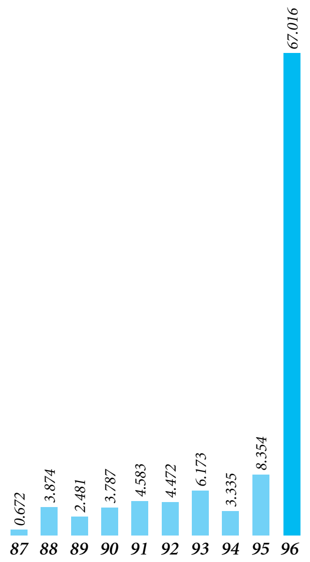
Cash Flow
Millions of Dollars



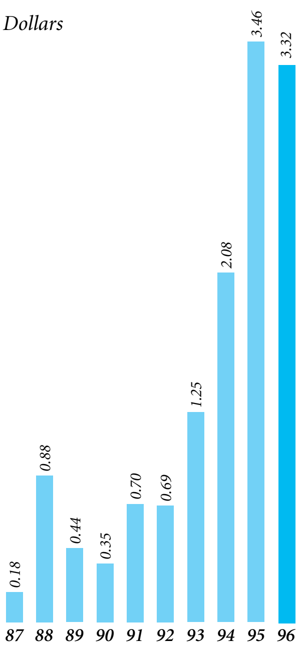
Net Earnings
Millions of Dollars



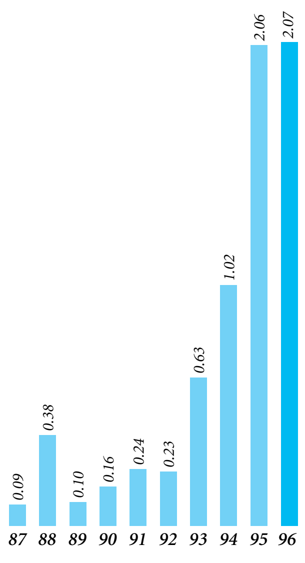
Working Capital
Millions of Dollars



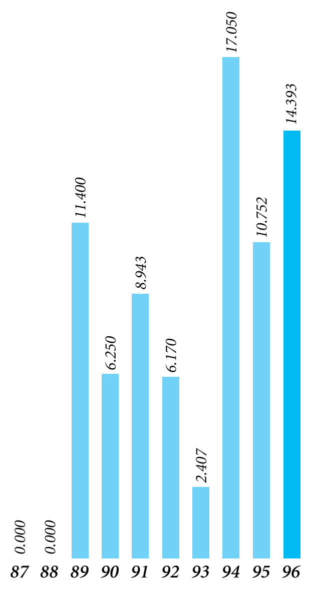
Cash Flow per Share
Dollars



Net Earnings per Share
Dollars



Long Term Debt
Millions of Dollars

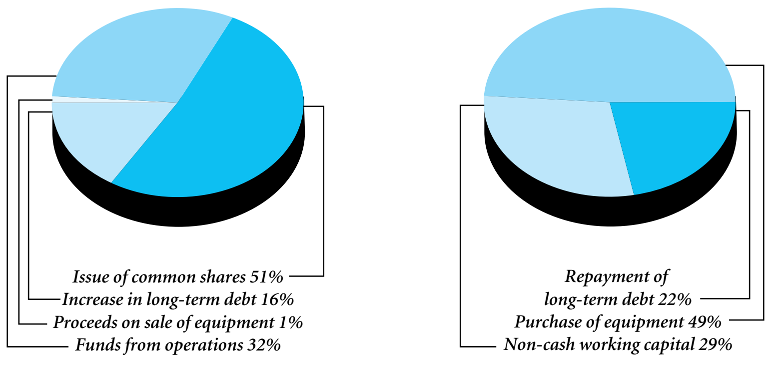


Liquidity and Capital Resources

The financial strength of Precision enabled the Company to maintain a high degree of liquidity with strong working capital to fund all the Company's cash requirements for the fiscal year ended April 30, 1996. The Company generated funds from operations of $27.8 million or $3.27 per share during the year compared to $27.6 million or $3.37 per share in fiscal 1995. At April 30, 1996, Precision had $67.0 million in working capital, including $52.0 million in cash and an unused demand credit facility of $20.0 million. In May 1996, the Company increased its revolving demand credit facility to $30.0 million and arranged a new term credit facility in the amount of $70.0 million. These loans bear interest at the Canadian bank prime rate. Precision is expected to sustain strong liquidity with cash flow from operations expected to remain robust throughout the next fiscal period.

SOURCES AND USES OF FUNDS

1996 SOURCES | 1996 USES



TOTAL $89.4 MILLION | TOTAL $49.7 MILLION

Net Capital Additions

Net capital additions of property, plant and equipment during the year ended April 30, 1996 amounted to $23.1 million, up $11.3 million from the $11.8 million last year and, $3.1 million more than estimated. These capital additions were funded by $14.7 million project term loans on the four new slant rigs and the balance from funds generated internally.

NET CAPITAL ADDITIONS

(millions of $)	
Rigs	16.3
Vehicles	1.7
Oil and gas development	3.3
Computer equipment and software	1.0
Other	0.8
	23.1

The amount invested, above the estimated capital expenditure level relates partially to the purchase of three rigs and equipment from another drilling company for $1.2 million and the $1.0 million spent on enhancing management information systems.

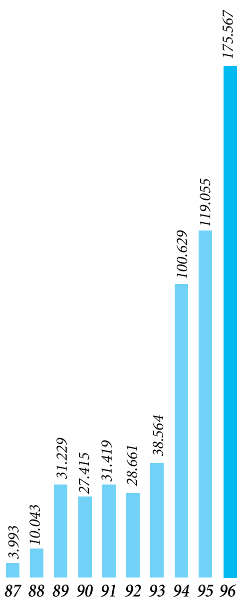
Long-Term Debt

Long-term debt at April 30, 1996 was $14.4 million compared to $10.8 million as at April 30, 1995. The increase in debt was a result of the construction of four new slant rigs for $14.7 million less debt repayments of $11.0 million during the year. These loans are secured by various drilling agreements which provide for minimum payments to satisfy loan principal and interest repayments in the event of the cessation of drilling operations. This term debt has interest payable at bank prime, plus 1/4%.

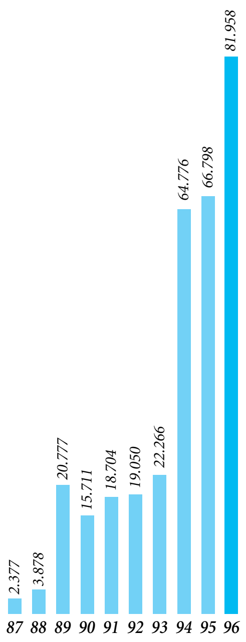
Shareholders' Equity

Share capital increased to $75.8 million at April 30, 1996 from $29.5 million at April 30, 1995. This large increase is due to the issuance of 2,100,000 Class A common shares for a total consideration (net of expenses, fees and tax benefit) of $44.0 million cash, and the balance of $2.3 million through the exercise of 309,275 employee stock options. Retained earnings increased 47% to $55.0 million from $37.4 million a year earlier.

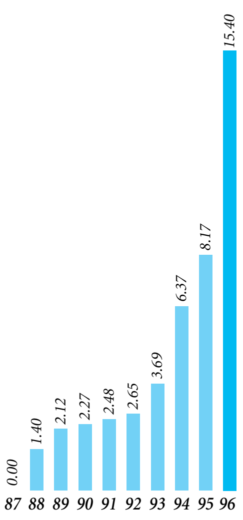
TOTAL ASSETS
Millions of Dollars



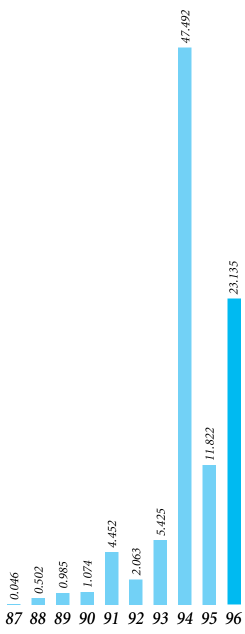
NET FIXED ASSETS
Millions of Dollars



SHAREHOLDERS' EQUITY
Dollars per Share



NET CAPITAL ADDITIONS
Millions of Dollars



BUSINESS RISK AND RISK MANAGEMENT

The Company's results for April 30, 1996 are most directly affected by the number of oil and gas wells drilled. The market's investment in exploration and development programs is influenced by various factors including:

- *PRICE OF OIL AND NATURAL GAS*
- *REGULATORY INTERVENTION*
- *TAXATION CHANGES*
- *CHANGES IN EQUITY MARKETS*
- *UNSEASONABLE WEATHER*

These events have the most significant impact on performance and, although they are beyond management's control, Precision's business strategies are designed to limit the negative impact while taking advantage of opportunities that arise when the business environment is difficult.

Precision continues to manage risk by strengthening its relationships with its customers by introducing innovative new technologies which assist in increasing our customers' production and profitability. The Company's financial strength and prudent balance sheet management, enable Precision to maintain the most modern and efficient rig fleet in the industry. Continuing expansion and up-grading of the slant and conventional rig fleet allow the Company to meet drilling requirements.

A comprehensive insurance and risk management program is maintained to protect the Company's assets and operations. This program meets or exceeds current industry standards. The Company complies with current environmental requirements and constantly seeks ways to improve upon procedures through on-going participation in various industry related committees and programs.

Precision has comprehensive health, safety and training programs. A commitment to upgrade the knowledge and skills of personnel is reflected in on-the-job and outside training programs.

A state-of-the-art management information systems is in place. Once fully operational, this integrated package is designed to improve purchasing capabilities, better control equipment maintenance and provide enhanced, timely information to customers, suppliers and management.

SUBSEQUENT EVENT

Acquisition of EnServ Corporation

In May 1996, Precision acquired all of the issued and outstanding shares of EnServ Corporation, one of Canada's largest oilfield service companies. This acquisition was carried out by way of a takeover bid which was made pursuant to an agreement entered into between EnServ and Precision. The consideration paid for the EnServ shares totaled approximately $228 million including $135.0 million cash and 3,396,565 Class "A" common shares of Precision. A $70.0 million term credit facility was arranged to facilitate the acquisition.

This diversified energy services company is a major participant in every business sector in which it operates and competes, providing the following services to its customers:

Natural Gas Compression

EnServ designs, packages, sells, services and rents natural gas compression equipment varying in size from 50 to 5,000 horsepower, with a typical order size in excess of $500,000. In Canada, three major suppliers provide the majority of the gas compressors sold. A limited number of distributorships for compressors and engines, and the established reputations of these three distributors, continue to provide barriers to prospective entrants to this industry. EnServ is the second largest of the three major Canadian suppliers.

Well Servicing

Operating 25 service rigs and 20 snubbing units, positions EnServ as one of the largest well servicing companies in Canada. EnServ's well servicing operations encompass workovers and completions, horizontal reentry drilling and snubbing, all essential in bringing new oil and gas wells into production and to maintain production from established wells. As a leader in the Canadian snubbing market, operating over half the snubbing units available, EnServ is benefiting from the increase trend of utilizing snubbing to complete complex wells that are being drilled on an under-balanced basis.

Rental Operations

Seventeen branch offices provide equipment, not only to the upstream and downstream sectors of the energy industry, but also extending to other sectors such as pulp and paper, chemical, and construction. Specialty equipment, such as a patented sour oil production system — the "Vapour Tight Battery" — has established EnServ as a major player in the rental equipment business. For the downstream sector, locations from Vancouver, B.C., to Sarnia, Ontario, provide downstream and processing customers with a full range of equipment. At Fort McMurray, Alberta, EnServ is positioned to serve the expanding oil sand programs.

Industrial Services

Specialized equipment and labour services are provided throughout North America by this business unit. Catalyst handling, high pressure water and chemical cleaning, and a range of other environmental and plant maintenance services are offered to a variety of customers including large refineries, chemical and gas plants, heavy oil upgraders and oil sands processors. Growth in this business sector continues as EnServ's reputation is recognized as a safe, reliable contractor providing highly specialized chemical cleaning procedures and complex catalyst handling is recognized.

OUTLOOK

The EnServ acquisition has transformed Precision into a major service provider covering both the upstream and the downstream energy sectors. It further reduces the cyclical nature of the Company's earnings while firmly establishing the Company among the largest service companies in North America.

The Company is now positioned to participate in what is anticipated to be a strong and stable energy industry over the next several years. The Company has a solid balance sheet and manageable debt load. Precision believes that current and forecasted industry activity levels will provide opportunities to expand and gain market share thereby further enhancing shareholder value.

These improved fundamentals should enable the Company to increase gross revenues to approximately $400 million with operating costs as a percentage of gross sales expected to increase marginally based on the new mix of business lines. General and administrative expenses will double while cash flow and net earnings as a percentage of sales should decrease slightly due to the additional operating costs related to the recently acquired companies. With the projected improvement in activity levels in all business segments, Precision should continue to maintain shareholder value with an expected increase in earnings per share.

Follow-through: Responsive to our Customers

As much as Precision takes pride in its market-leading position, that doesn't mean the job couldn't be done better. Perhaps it is that understanding that allows our position to be maintained, year after year. Ensuring our customers' satisfaction is our primary objective, however that objective requires follow-through from many angles

Formally, a customer questionnaire is offered after each job which provides an opportunity to comment on all aspects of the job. Sometimes comments are detailed and other times, understandably, customers decline to take on additional paperwork. Informally, field superintendents are responsible for following up on each job by talking to customers and crew foremen. Maintaining and improving on quality standards takes time and effort to collect, communicate and act on customers' responses. Precision has made its reputation on this, perhaps the most important step in all of our processes.

Service at the Beginning and End

Precision is a company that begins and ends with Service. Whether responding to an immediate need to an isolated location, or developing an innovative technology, Precision provides an unparalleled level of service. Our customers count on quality equipment and technology, superior know-how and the kind of follow-through that ensures our services consistently and continually respond to customers' needs.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles 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 maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

KPMG Peat Marwick Thorne, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of shareholders at the Company's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The audit committee of the Board of Directors, which is comprised of three directors who are not employees of the Company, has discussed the consolidated financial statements, including the notes thereto, with management and external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

D.E. TREMBLAY
Vice President, Finance and Corporate Secretary
June 25, 1996

AUDITORS' REPORT

TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Precision Drilling Corporation as at April 30, 1996 and 1995 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
June 25, 1996

CONSOLIDATED BALANCE SHEETS

April 30, 1996 and 1995

(Stated in thousands of dollars)

		1996	1995
	Assets		
	Current assets:		
	Cash	**51,981**	11,953
	Accounts receivable	**33,142**	32,986
	Inventory	**4,162**	2,886
		89,285	47,825
Note 2	Investments	**4,324**	4,432
Note 3	Property, plant and equipment, at cost less accumulated depreciation	**81,958**	66,798
		175,567	119,055
	Liabilities and Shareholders' Equity		
	Current liabilities:		
	Bank indebtedness	**524**	150
	Accounts payable and accrued liabilities	**17,047**	19,004
	Income taxes payable	**–**	11,005
	Current portion of long-term debt	**4,698**	9,312
		22,269	39,471
Note 4	Long-term debt	**9,695**	1,440
	Deferred income taxes	**12,809**	10,909
	Minority interest	**–**	284
	Shareholders' equity:		
Note 5	Share capital	**75,795**	29,520
	Retained earnings	**54,999**	37,431
		130,794	66,951
Note 7	Commitments		
Note 11	Subsequent event		
		175,567	119,055

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director

Director

ACCOUNTS & NOTES

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended April 30, 1996 and 1995

(Stated in thousands of dollars except per share amounts)

		1996	1995
	Revenue	**163,102**	178,597
	Expenses:		
	Operating	**111,798**	122,419
	General and administrative	**12,278**	12,070
	Depreciation	**7,736**	9,800
	Foreign exchange	**671**	19
	Interest		
	Long-term debt	**727**	1,196
	Other, net	**8**	347
		133,218	145,851
		29,884	32,746
	Dividend income	**381**	718
	Earnings before income taxes and minority interest	**30,265**	33,464
Note 6	Income taxes		
	Current	**9,831**	14,916
	Deferred	**2,670**	1,431
		12,501	16,347
	Earnings before minority interest	**17,764**	17,117
	Minority interest	**196**	231
	Net earnings	**17,568**	16,886
	Retained earnings, beginning of year	**37,431**	20,724
	Adjustment on purchase and cancellation of share capital	–	(179)
	Retained earnings, end of year	**54,999**	37,431
Note 8	Earnings per share:		
	Basic	**2.07**	2.06
	Fully diluted	**1.91**	1.88

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended April 30, 1996 and 1995

(Stated in thousands of dollars except per share amounts)

		1996	1995
	Cash provided by (used in):		
	Operations:		
	Net earnings	**17,568**	16,886
	Deduct dividend income	**381**	718
		17,187	16,168
	Charges not affecting cash:		
	Depreciation	**7,736**	9,800
	Deferred income taxes	**2,670**	1,431
	Minority interest	**196**	231
	Funds provided by operations	**27,789**	27,630
	Changes in non-cash working capital components	**(14,201)**	10,521
		13,588	38,151
	Investments:		
	Purchase of property, plant and equipment	**(24,299)**	(12,033)
	Proceeds on sale of property, plant and equipment	**1,164**	211
	Dividend income	**381**	718
	Investments	**108**	(2,178)
	Purchase of minority interest in subsidiary	**(241)**	–
		(22,887)	(13,282)
	Financing:		
	Increase in long-term debt	**14,671**	145
	Repayment of long-term debt	**(11,030)**	(6,443)
	Issuance of common shares, net	**45,312**	222
	Repurchase of common shares	**–**	(303)
		48,953	(6,379)
	Increase in cash	**39,654**	18,490
	Cash (bank indebtedness), beginning of year	**11,803**	(6,687)
	Cash, end of year	**51,457**	11,803
Note 8	Funds provided by operations per share:		
	Basic	**3.27**	3.37
	Fully diluted	**3.00**	3.04

Cash is defined as cash net of bank indebtedness.

See accompanying notes to consolidated financial statements.

Years ended April 30, 1996 and 1995

The Company's principal activity is the operation of oil and gas drilling rigs in Canada.

1

Significant accounting policies:

(A) The consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiaries, LRG Catering Ltd., Trenchless Replacement Services Ltd., PD International Services Inc. (including its foreign subsidiaries), its 95% interest in Montero Resources Corp., and its 50% interest in the Arrowstar Drilling Partnership.

(B) INVENTORY:

Inventory is valued at the lower of cost and replacement value.

(C) INVESTMENTS:

Investments in shares of associated companies, over which the Company has significant influence, are accounted for by the equity method. Other investments are carried at cost.

(D) PROPERTY, PLANT AND EQUIPMENT:

Rig equipment is depreciated on a unit-of-production method based on three thousand drilling days in 1996 and two thousand drilling days previously.

Buildings are depreciated on a declining balance basis at a rate of 5%.

Vehicles are depreciated on a declining balance basis at a rate of 30%.

Other equipment is depreciated on a declining balance basis at rates of 10% to 30%.

Equipment recorded under capital leases is amortized on a straight-line basis over its estimated useful life.

Oil and gas properties are accounted for under the full cost method under which all costs of exploration and development of such properties are calculated. These costs are depleted on the unit-of-production method based upon estimated proven reserves as determined by independent engineers. Capitalized costs are limited to estimated future net revenues determined using year end prices.

(E) POST EMPLOYMENT BENEFITS:

The Company has entered into an employment agreement which provides for certain post employment benefits. Costs of these benefits are charged to earnings on a straight-line basis over ten years.

(F) FOREIGN CURRENCY TRANSLATION:

Accounts of foreign operations, which are considered financially and operationally integrated, are translated to Canadian dollars using average rates for the year for revenue and expenses. Gains or losses resulting from these translation adjustments are included in earnings. Monetary assets are translated at the year end current exchange rate and non-monetary assets are translated using historical rates of exchange.

2

Investments:

($000's)	1996	1995
At equity	–	2,266
At cost	4,324	2,166
	4,324	4,432

During the year the Company determined that it no longer exercised significant influence in an associated company. As a result, the Company changed its basis of accounting for the investment from equity to cost.

3

Property, plant and equipment:

($000's)	Cost	Accumulated depreciation	Net book value
1996			
Rig equipment	**101,553**	**36,230**	**65,323**
Buildings	**2,968**	**1,447**	**1,521**
Vehicles	**5,361**	**2,291**	**3,070**
Other equipment	**7,335**	**2,576**	**4,759**
Oil and gas properties	**6,285**	**283**	**6,002**
Land	**1,283**	**–**	**1,283**
	124,785	**42,827**	**81,958**

($000's)	Cost	Accumulated depreciation	Net book value
1995			
Rig equipment	85,421	30,603	54,818
Buildings	2,892	1,350	1,542
Vehicles	3,938	1,522	2,416
Other equipment	5,788	1,843	3,945
Oil and gas properties	2,938	34	2,904
Land	1,173	–	1,173
	102,150	35,352	66,798

Included in property, plant and equipment are assets with a net book value of $7,315,000 at April 30, 1996 ($7,900,000 at April 30, 1995) that are without tax basis.

4

Long-term debt:

($000's)	1996	1995
Geosearch acquisition loan, interest at prime plus 3/8%	-	8,000
Project term loans, interest at prime plus 1/4%	14,348	2,527
Capital lease obligations	45	225
	14,393	10,752
Less amounts due within one year	4,698	9,312
	9,695	1,440

The Company financed the construction of 5 drilling rigs by way of project term loans, which are repayable in minimum monthly installments before interest of $390,259 (1995 - $100,000). The bank has the right to require net proceeds from operations received under the specific drilling contracts to be utilized as payments relating to the loans.

Capital lease obligations are secured by certain lease vehicles. Interest rates are fixed and range from 7% to 11.5%. The amounts outstanding may be terminated by defined notice.

Bank borrowings are secured by a $10,500,000 fixed and floating charge debenture over all assets. The project term loans are also secured by a supplemental first fixed charge on the drilling rigs, and a specific assignment of various drilling agreements.

The Company has available to it a demand credit facility to a maximum of $20,000,000. The facility bears interest at prime plus 1/4% and is secured by general assignment of book debts and in part by the security provided on the long-term debt.

Interest, capitalized, in connection with rig equipment, in the amount of $424,000 for 1996 is credited to other interest expense.

Principal repayments due within the next five years are as follows:

($000's)	Amount
1997	4,698
1998	3,625
1999	3,496
2000	2,265
2001	309

5

Share capital:

The authorized share capital of the Company consists of an unlimited number of preferred shares of no par value and an unlimited number of Class A, B and C common shares of no par value. Class A and B common shares are voting.

The following is a summary of the changes in share capital:

	Issued	
	Class A Shares	Amount ($000's)
Balance, April 30, 1994	8,183,474	29,422
Options exercised	32,525	222
Repurchased for cash	(34,600)	(124)
Balance, April 30, 1995	8,181,399	29,520
Options exercised	309,275	2,302
Issued for cash	2,100,000	45,150
Expenses of issue, net of related tax benefit of $770,000	–	(1,177)
Balance, April 30, 1996	10,590,674	75,795

During 1995 pursuant to an issuer bid, the Company purchased 34,600 shares for an aggregate consideration of $303,000.

At April 30, 1996 the Company has stock options outstanding for 673,657 Class A common shares under its equity incentive plans. These options become exercisable at prices varying between $2.25 and $23.13 per share in equal annual amounts for four years to August 1, 1999 and expire on June 30, 2000.

At April 30, 1996 the Company has warrants outstanding for 250,000 Class A common shares. These warrants are exercisable at $15.25 each and expire on October 1, 1996.

6

Income taxes:

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

($000's)	**1996**	1995
Earnings before income taxes and minority interest	**30,265**	33,464
Income tax rate	**45%**	45%
Expected income tax provision	**13,619**	15,059
Add (deduct):		
Utilization of loss carryforwards of subsidiary	**(1,694)**	–
Losses of subsidiaries	**275**	1,183
Non-deductible expenses and other	**932**	734
Dividend income from taxable Canadian corporation	**(171)**	(323)
Income taxes at different rates in foreign jurisdictions	**(460)**	(306)
	12,501	16,347

7

Commitments:

The Company has commitments for operating lease agreements over the next five years as follows:

($000's)	Amount
1997	505
1998	483
1999	271
2000	227
2001	337

8

Earnings and funds provided by operations per share:

Earnings and funds provided by operations per share have been calculated on the weighted average number of common shares outstanding. The weighted average shares outstanding for 1996 was 8,494,201 (1995 - 8,198,997).

Fully diluted per share amounts reflect the dilutive effect of the exercise of the options and warrants outstanding at April 30, 1996. Earnings on the funds which would have been received on exercise of these items, have been imputed at 6% per annum (1995 - 6.5%).

9

Related party transaction:

The Company participates through a subsidiary, for the purposes of exploring and developing oil and gas properties, in a joint venture with a publicly traded company in which joint venture certain directors and officers of the Company have a minor interest. To April 30, 1996 $4,963,500 (1995 - $2,600,000) has been advanced to the joint venture.

10

Significant customers

The Company derives 46% (1995 - 33%) of its revenue from contracts with three customers.

11

Subsequent event

In May 1996 the Company acquired all of the issued and outstanding shares of Enserv Corporation for total approximate consideration of $228 million (including expenses estimated at $2 million). This consideration was comprised of $135 million cash and the issuance of 3,397,000 shares of the Company. The acquisition will be accounted for by the purchase method with results of operations of the acquired entity included in the financial statements of the Company from the date of acquisition. The purchase price exceeds the net book value of assets acquired by approximately $87 million which will be allocated to property, plant and equipment and goodwill in the amounts of $22 million and $65 million respectively.

In this connection, the Company increased its revolving demand credit facility to $30 million and arranged a new term credit facility in the amount of $70 million. The new term facility is repayable in six equal semi-annual payments commencing October 31, 1996 and is secured by general security over the property and accounts receivable of the Company and its subsidiaries. The credit facilities bear interest at bank prime.

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(Thousands of dollars except per share amounts)

Years ended April 30, 1987-1996

($000's)	**1996**	1995	1994	1993	1992	1991	1990	1989	1988	1987
Revenue	**163,102**	178,597	97,550	44,301	31,021	40,075	31,686	37,730	25,196	10,353
Expenses:										
Operating	**111,798**	122,419	68,083	30,970	23,396	31,496	24,672	30,171	18,667	8,198
General and administrative	**12,278**	12,070	8,809	4,269	3,548	3,885	3,884	3,593	2,281	996
Depreciation	**7,736**	9,800	4,982	2,209	1,717	1,459	1,165	1,396	564	481
Foreign exchange	**671**	19	–	–	–	–	–	–	–	–
Write-down of equipment	–	–	–	–	–	–	5,093	–	–	–
Interest long-term	**727**	1,196	330	389	620	582	1,065	1,367	–	–
Interest other, net	**8**	347	204	–	–	73	84	150	93	–
	133,218	145,851	82,408	37,837	29,281	37,495	35,963	36,677	21,605	9,675
	29,884	32,746	15,142	6,464	1,740	2,580	(4,277)	1,053	3,591	678
Forgiveness of long-term debt	–	–	–	–	–	–	5,150	–	–	–
Dividend income	**381**	718	–	322	498	–	–	–	–	–
Earnings before taxes and minority interest	**30,265**	33,464	15,142	6,786	2,238	2,580	873	1,053	3,591	678
Income taxes:										
Current	**9,831**	14,916	3,793	1,520	44	27	18	–	–	479
Deferred (recovery)	**2,670**	1,431	3,340	1,480	900	1,167	(31)	496	1,811	(149)
	12,501	16,347	7,133	3,000	944	1,194	(13)	496	1,811	330
Earnings before minority interest	**17,764**	17,117	8,009	3,786	1,294	1,386	886	557	1,780	348
Minority interest	**196**	231	8	45	–	–	–	–	–	–
Net earnings	**17,568**	16,886	8,001	3,741	1,294	1,386	886	557	1,780	348
Retained earnings, beginning of year	**37,431**	20,724	12,723	8,982	7,997	6,611	5,725	5,168	3,388	–
Adjustment on purchase and cancellation of share capital	–	(179)	–	–	(309)	–	–	–	–	–
Retained earnings, end of year	**54,999**	37,431	20,724	12,723	8,982	7,997	6,611	5,725	5,168	–
Earnings per share	**2.07**	2.06	1.02	0.63	0.23	0.24	0.16	0.10	0.38	.09

ADDITIONAL SELECTED FINANCIAL DATA

(All dollar amounts are stated in thousands of dollars except per share amounts)

Years ended April 30, 1987-1996

	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987[8]
Returns										
Return on Sales [1]	**10.8%**	9.5%	8.2%	8.4%	4.2%	3.5%	2.8%	1.5%	7.1%	3.4%
Return on Assets [2]	**10.0%**	14.2%	8.0%	9.7%	4.5%	4.4%	3.2%	1.8%	17.7%	8.7%
Return on Equity [3]	**13.4%**	25.2%	16.0%	17.0%	8.6%	9.7%	7.0%	4.8%	26.9%	–
Financial Position ($)										
Working capital	**67,016**	8,354	3,335	6,173	4,472	4,583	3,787	2,481	3,874	672
Current ratio	**4.01**	1.21	1.11	1.69	2.01	1.62	1.53	1.34	2.99	2.12
Net fixed assets	**81,958**	66,798	64,776	22,266	19,050	18,704	15,711	20,777	3,878	2,377
Total assets	**175,567**	119,055	100,629	38,564	28,661	31,419	27,415	31,229	10,043	3,993
Long-term debt	**14,393**	10,752	17,050	2,407	6,170	8,943	6,250	11,400	–	–
Shareholders' equity	**130,794**	66,951	50,146	22,065	15,111	14,278	12,724	11,675	6,618	–
Total long term debt to shareholders' equity	**0.11**	0.16	0.34	0.11	0.41	0.63	0.49	0.98	–	–
Net capital additions including acquisitions	**23,135**	11,822	47,492	5,425	2,063	4,452	1,074	985	502	46
Gross margin	**51,304**	56,178	29,467	13,331	7,625	8,579	7,014	7,559	6,529	2,155
Gross margin - % of sales	**31.5%**	31.5%	30.2%	30.1%	24.6%	21.4%	22.1%	20.0%	25.9%	20.8%
Cash flow [4]	**28,170**	28,348	16,331	7,475	3,911	4,012	1,963	2,449	4,155	680
Cash flow per share [4]	**3.32**	3.46	2.08	1.25	0.69	0.70	0.35	0.44	0.88	0.18
Depreciation	**7,736**	9,800	4,982	2,209	1,717	1,459	1,165	1,396	564	481
Common Share Data										
Book value per share ($)[5]	**15.40**	8.17	6.37	3.69	2.65	2.48	2.27	2.12	1.40	–
Earnings per share ($)[6]	**2.07**	2.06	1.02	0.63	0.23	0.24	0.16	0.10	0.38	0.09
Price Earnings Ratio [7]	**12.32**	6.74	16.1	16.1	9.8	10.4	17.4	19.8	–	–
Weighted average common shares outstanding (000's)	**8,494**	8,199	7,869	5,972	5,696	5,748	5,609	5,508	4,724	3,867

(1) Return on Sales was calculated by dividing net earnings by total revenues.
(2) Return on Assets was calculated by dividing net earnings by total year-end assets.
(3) Return on Equity was calculated by dividing net earnings by total shareholders' equity.
(4) Funds provided from operations excluding forgiveness of debt for 1990 and funds provided from operations combined with dividend income.
(5) Book value per share was calculated by dividing shareholders' equity by total weighted average number of common shares outstanding.
(6) Earnings per share was calculated by dividing net earnings by the weighted average number of common shares outstanding.
(7) Year-end closing price divided by earnings per share.
(8) Year reverse takeover occurred.

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Energy Industries

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(2) Compensation Committee Member
(3) Corporate Governance Committee Member

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STOCK EXCHANGE

The Toronto Stock Exchange

Trading Symbol: PD.A

Trading Profile

May 1, 1995 to April 30, 1996
High: $27.75 Low: $13.00
Volume Traded: 8.4 million
Turnover: 99%

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as of April 30, 1996

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as of April 30, 1996

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PRECISION DRILLING CORPORATION

1996 ANNUAL REPORT

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