the 21st Century

AKITA

2004 ANNUAL REPORT

Contents

Corporate Profile	1
2004 Operational Performance	2
Share Performance	3
Letter to the Shareowners	4
Operations Review	9
Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Management's Responsibility for Financial Reporting	31
Auditors' Report	32
Financial Statements	33
Notes to Financial Statements	36
10 Year Financial Review	45
Corporate Information	IBC

Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Thursday May 26, 2005 at the Metropolitan Conference Center, 333 - 4th Avenue SW, Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

Forward Looking Statements

From time to time we make written and verbal forward-looking statements. These may be included in the Annual Report, filings with Canadian regulators, in reports to shareholders and in other communications. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our business, our outlook for our industry and our risk management discussion.

By their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers, world oil and North American natural gas prices, weather, access to capital markets and government policies. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Corporate Profile

AKITA Drilling Ltd. is a premier oil and gas drilling and well servicing contractor with operations throughout Western Canada and Canada's Northern Territories. The Company strives to be the industry leader in matters of customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling and well services, the Company specializes in purpose-built arctic and heavy oil drilling rigs and is active in directional, horizontal and underbalanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs at full operations approximately 825 people operating 37 drilling rigs in all depth ranges. In addition, the Company operates three well service rigs in Western Canada.

Cover: Akita Equtak - Rig 62 drilling in the Mackenzie Delta

Photo credit: David Watt Photography Cover and above

Operational Performance

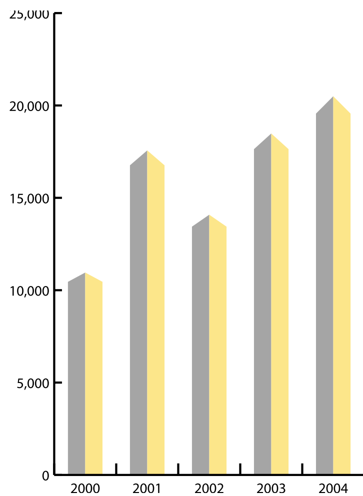
A year of strong oil and gas prices led to record high activity in the overall drilling sector. Coupled with increased day rates, this resulted in AKITA's profitability reaching a record level in 2004 for the second consecutive year. The strength in activity most evident in the first and fourth quarters bodes well for 2005. AKITA has achieved positive earnings in each quarter of its existence.

Cash Flow from Operations also reached record levels due to strong prices and increased day rates, and continuing standby revenues from rigs on long term contracts. Strong cash flow has helped to reinforce the company's commitment to maintain its equipment in superior operating condition, and to capitalize on changing market opportunities.

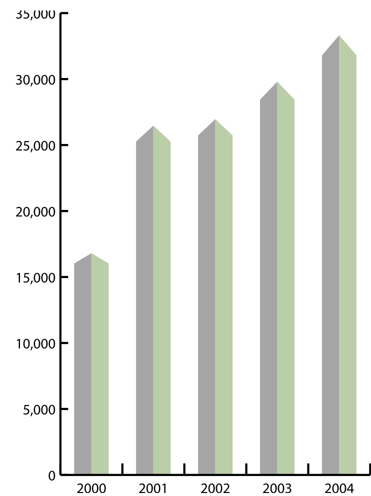
AKITA has always maintained a significant liquidity position. The 2004 year-end working capital balance of $40,414,000 is the strongest in the history of the Company.

Equity per share grew 16.8% on a one year basis, and 16.7% compounded over the past five years.

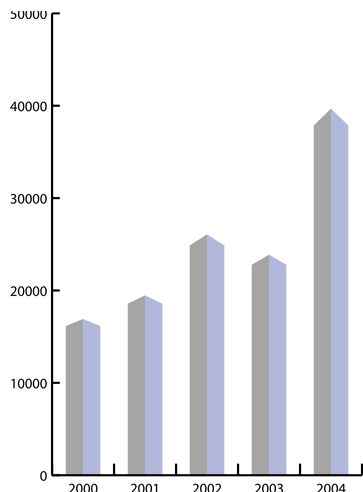
Net Earnings
(000's)



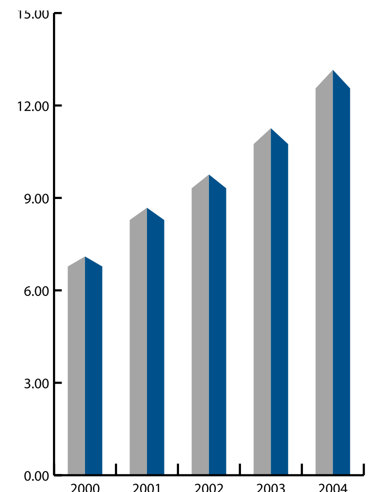
Cash Flow
(000's)



Year-end Working Capital
(000's)

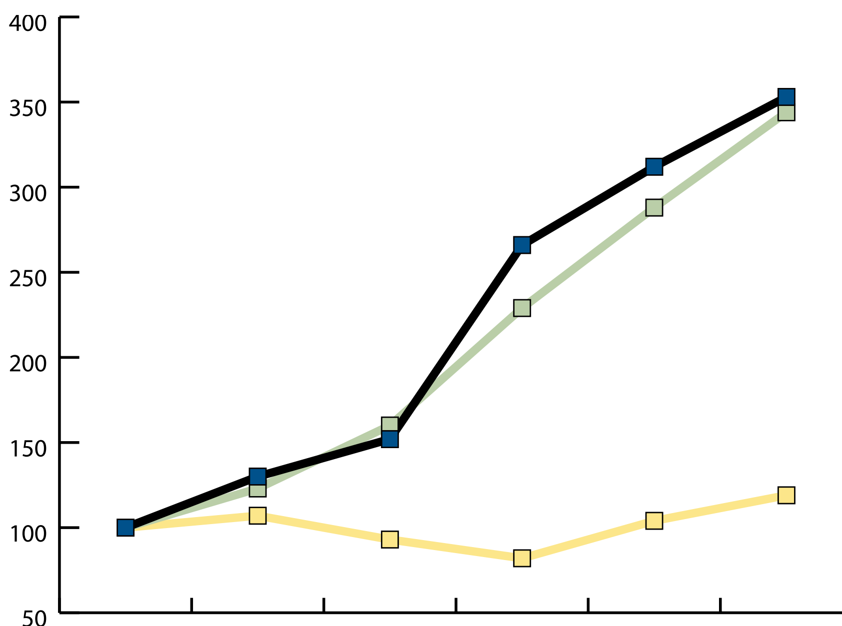


Equity per Share
($)



Share Performance

The graph to the right compares the cumulative return over the last five years on the Class A Non-Voting Shares and Class B Common Shares of the Company from December 31,1999 with the cumulative total return of the TSE 300 Stock Index over the same period, assuming reinvestment of dividends.



	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004
AKITA Class A	100	130	152	266	312	353
AKITA Class B	100	123	160	229	288	344
S&P/TSX Composite Index	100	107	93	82	104	119

SHARE PERFORMANCE

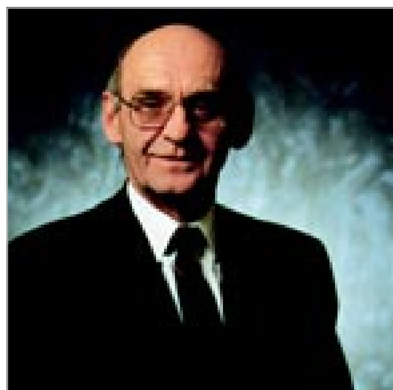
Weighted average number of Class A and Class B Shares		9,318,173	9,083,582	9,093,737	9,020,033	9,045,450
Market Prices for Class A Shares	High	$13.00	$16.00	$20.95	$24.65	$27.50
	Low	$ 8.00	$10.30	$12.00	$18.75	$23.60
	Close	$10.80	$12.25	$20.95	$24.16	$26.98
Volume		3,599,012	2,676,835	2,157,850	1,493,831	2,236,999
Market Prices for Class B Shares	High	$12.00	$16.50	$21.00	$26.00	$31.00
	Low	$ 8.00	$11.00	$13.00	$18.70	$24.60
	Close	$11.00	$14.00	$19.60	$24.25	$28.50
Volume		11,082	13,178	8,048	7,951	5,957

DIVIDEND HISTORY

AKITA began paying dividends to shareholders in 1996. It is the current intention of the Board of Directors to continue to pay quarterly dividends in the future. Nevertheless, the payment of any dividend is at the discretion of the Board of Directors and depends upon the financial condition of the Company and other factors.

	2000	2001	2002	2003	2004
Dividends paid per share ($)	0.32	0.36	0.36	0.36	0.40

Ronald D. Southern
Chairman of the Board



John B. Hlavka
President and C.E.O.

Letter to the Shareowners

During 2004, AKITA achieved record earnings of $20,875,000 or $2.31 per share on revenue of $135,747,000. Comparative figures for 2003 were $18,822,000 or $2.09 per share on revenue of $124,078,000. Cash flow from operations for the current year also reached a record level of $33,947,000 as compared to $30,426,000 in 2003.

Much of the financial success in 2004 occurred in the first and fourth quarters of the year. The spring and summer seasons were characterized by wet weather, which resulted in weaker activity levels, particularly for singles and doubles, than in the previous year despite the strong underlying demand for rigs by customers. Rig utilization was 52.2% compared to the industry average of 53.0% and AKITA's utilization of 54.7% in 2003.

AKITA participates in all major market segments in Western Canada as well as in Canada's northern territories. The Company maintains a balanced fleet of rigs that includes 11 singles, 14 doubles and 12 triples. AKITA's ongoing determination to provide premium drilling services using modern and efficient equipment, operated by well-trained and responsible employees is an all-encompassing approach.

During the year, AKITA added a 3,300 metre rig at a cost of $4.8 Million. The rig is currently working on a multi-well project for a large independent oil and gas exploration company. Although this rig was constructed by AKITA without the benefit of an underlying term contract, the overall strategy of the Company to match new projects with term contracts remains intact.

Photo credit:
David Watt Photography

On October 1, 2004, AKITA, along with one of its northern joint venture partners, purchased the assets of a private Alberta well servicing company consisting of three well servicing rigs. Existing crews were also hired by AKITA. Although the addition of these service rigs and crews does not immediately expand our range of northern services, management is confident that the Company now has the requisite nucleus of personnel to support the addition of one or more purpose-built rigs for the north. Additional service opportunities are also being evaluated in AKITA's other core market areas.

In our shareowners' letter last year, we noted that the Company would be prepared to employ innovative solutions to expand its heavy oil pad drilling capabilities, if market conditions warrant the investment. During the fourth quarter of 2004, AKITA entered into a one-year heavy oil pad drilling contract that will involve a major upgrade of an existing rig. This project is scheduled to commence in mid-2005. At that time, AKITA will have three rigs dedicated to drilling for heavy oil on a year-round basis.

AKITA participates in all major market segments in Western Canada as well as in Canada's Northern Territories.
The Company maintains a balanced fleet of rigs that includes 11 singles, 14 doubles and 12 triples.

Management has also identified a number of additional opportunities for investment in our core areas of northern and heavy oil drilling, expanding our penetration in coal bed methane drilling, and increasing both our fleet size and scope in well servicing. AKITA continues to have the financial strength to make appropriate investments to meet the challenges of today's evolving market. At December 31, 2004 our Company had $40.4 Million in working capital, including $ 27.5 Million in cash.

AKITA's safety performance remains among the best in the Canadian drilling industry but did not meet our own standards. The number of safety-related incidents involving employees in 2004 was slightly higher than the record low achieved in the previous year.

Additionally, the severity of certain accidents was greater than in previous years. We investigate the causes of all incidents in order to take steps to avoid the likelihood of recurrence. The importance of safety is communicated to every employee in AKITA, and the Company ensures that sufficient resources are allocated to provide a safe environment for all employees.

In October 2004, the Canadian Association of Oilwell Drilling Contractors prepared an industry drilling forecast that estimated approximately 24,000 wells will be drilled in 2005 compared to 21,593 wells actually drilled in 2004. This estimate was based on average commodity price assumptions of US $40 per barrel for oil and US $6.12 per mcf for natural gas, which, to date, have both been exceeded. To date in 2005, drilling in Western Canada has proceeded at a record pace. Your management is optimistic that last year's drilling activity will continue to be exceeded given strong ongoing commodity prices.

During the year, the Company repurchased 41,400 Class A Non-Voting shares (0.5% of the class) at an average price of $25.43 per share.

As part of an initiative undertaken by the TSX to more explicitly highlight non-voting share structures, non-voting shares of AKITA that previously traded under the symbol "AKT.A" now trade under the revised symbol "AKT.NV.A".

We were pleased to announce, effective May 20, 2004 the addition of Mr. William Horton to our Board of Directors. Mr. Horton brings a significant history of corporate experience and is the current chairman of our audit committee. Mr. Horton has taken over the audit chair role from Mrs. Dale Richardson who has provided over 11 years of sterling service in that capacity. Mrs. Richardson, who as a result of changes to corporate governance regulations, relinquished her Chairmanship, but has agreed to remain as a member of the audit committee.

We wish to thank the Board of Directors for their wise counsel and guidance, AKITA's employees and business partners for their dedication and hard work, and our shareowners for their support and confidence in the Company.

On behalf of the Board of Directors.

Ronald D. Southern
Chairman of the Board

John B. Hlavka
President and C.E.O.

March 18, 2005

AKITA has drilling rigs and specialized equipment capable of servicing all depth ranges

Photo credit: John Dean

Northern Operations

AKITA's northern operations are conducted through several different joint ventures with each joint venture operating in a specific geographic region. These arrangements have been in place for several years and have provided significant benefits to AKITA and its joint venture partners.

In 2000, AKITA constructed the first of four specialty rigs designed to help explore in the extreme environments located in the Mackenzie Delta. These rigs were designed to minimize weight per load, thereby allowing early season rig movement and extending the potential drilling season. Special attention was also made to ensure heat generated by the rig would be used to advantage internally and not transmitted into the fragile permafrost. Additional features exist to ensure that AKITA has "state of the art" equipment for Arctic applications.

AKITA also has a shallower capacity rig that has been fully retrofitted to meet Arctic requirements as well as additional equipment that is capable of operating in harsh northern climates.

AKITA had eight rigs working in its northern joint venture regions during 2004, one more than in 2003. Should the Mackenzie Valley Pipeline be built, it would provide a strong stimulus to increase northern drilling activity. AKITA has been working diligently with its customers to ensure the Company will be able to meet the evolving needs of its customers in the north.

Two Akita Equtak rigs working on adjacent leases on Richards Island performing drilling, well servicing and testing operations.

Photo credit: David Watt Photography

During the year, the Company drilled 220 heavy oil pad wells, up from 169 in 2003. The Company is currently retrofitting its third specialty pad rig for service in this market. Heavy oil drilling has become an increasingly significant sector in the Canadian industry in recent years due to the maturity of the Western Canadian Sedimentary Basin with respect to conventional oil reserves.

Drilling heavy oil wells currently affects AKITA's operations in two important ways. First, smaller single sized rigs are employed to delineate prospective locations for further development drilling. In 2004, this represented nearly one third of heavy oil wells drilled by the Company. Secondly, AKITA has specialty pad rigs that are self-moving within each pad.

Much of AKITA's focus with respect to heavy oil drilling has been in the development of these pad style rigs. Pad style rigs, unlike conventional equipment, are designed to utilize a "centralized support system" that remains in one location, while the rest of the components move within the pad, drilling one well after another. These unique designs create an improvement in efficiency that results in lower costs for our customers coupled with a high number of drilling days for AKITA.

AKITA anticipates continuing steady demand for pad rigs and is identifying the best method to expand its scope of operations in this market sector.

By spring 2005, the Company will have completed its retrofit on its third specialty pad rig.

Photo credit: John Dean

Conventional Natural Gas & Oil

Once again in 2004, natural gas exploration and development dominated the industry as more than three gas wells were drilled in Western Canada for every oil well completed. Natural gas is often located in shallow horizons, as are typically found in southern Alberta and Saskatchewan and in deeper formations, generally associated with the foothills and some mountain regions of Alberta, British Columbia, Northwest and Yukon Territories.

AKITA operates a well-maintained, diversified and efficient fleet of 37 drilling rigs within the Western Canadian Sedimentary Basin and Canada's northern territories. AKITA's 11 singles and 13 triples represent 65% of its fleet and ensure particularly favourable exposure to natural gas drilling.

AKITA considers conventional natural gas drilling to be a core segment of its business and has constructed 10 new or rebuilt rigs in the past eight years that have drilling capacities that are targeted to meet this demand. In addition, the Company has ensured that other rigs in the fleet are also maintained in a first class manner and include all necessary equipment to perform efficiently and competitively. For example, 11 of AKITA's 13 triples have top drives mounted on them in order to improve drilling efficiency.

AKITA's balanced fleet resulted in all depth segments being busy in 2004, with no significant dominance by any one particular depth range.

Conventional oil drilling has been on a general decline over most of the past decade, as the Western Canadian Sedimentary Basin appears to be maturing. Nevertheless, AKITA continues to participate in oil drilling since it is complementary to and provides a logical diversification from natural gas activities.

AKITA's diversified fleet gives the Company good exposure to shallow, deep and unconventional gas.

Photo credit: John Dean

Other Initiatives

During the last three years significant industry discussion has surfaced regarding drilling and producing coal bed methane wells in Canada. In the United States, coal bed methane represents over 8% of all natural gas produced (source: Energy Information Administration for 2002). Canadian production from coal bed methane is not yet significant. However, because 1,348 coal bed wells (6% of total wells drilled) were drilled in Canada in 2004 alone, the potential for an opportunity is being recognized. AKITA drilled 103 coal bed wells in 2004, compared to the 101 wells drilled by the Company in 2003.

Coal bed methane represents one of management's current areas of interest for the Company. Although Canadian development of this resource is in its infancy, AKITA recognizes that, as in the United States, potential exists to develop this resource, especially as a result of overall declines in conventional natural gas fields. AKITA has allocated a portion of its 2005 capital budget to expand and refine its coal bed methane drilling capabilities.

AKITA anticipates coal bed methane drilling will expand over the next several years given natural gas prices that are similar to, or higher than current prices (i.e. Aeco natural gas prices over $6 per mcf).

During 2004, AKITA Equtak Drilling (a joint venture owned 50% by AKITA) purchased three well servicing rigs. The Company believes that this initial step into the complementary well service business may provide opportunities for expansion, particularly with respect to adding equipment to service northern prospects as well as the heavy oil market.

Subsequent to year-end, AKITA Drilling entered into a joint venture with Doyon Drilling Inc. (a private drilling company operating in Alaska) to provide a drilling rig on a multi-year contract basis to a major independent oil and gas producer. Although this is the first time AKITA has been involved in a joint venture in which another party operates a rig, the Company remains open to the possibility of expanding this relationship.

Management is also continually investigating additional opportunities to enhance overall shareholder value. Prospects being reviewed must meet certain criteria including profitability, cyclical vulnerability and other risk considerations, and other factors.

Drilling for unconventional coal gas in Southern Alberta.

Photo credit: John Dean

Safety & Environmental Performance

AKITA's 2004 safety record, although still well ahead of industry, did not meet the Company's expectations or 2003 record results. The lost time accident frequency was 0.91 accidents per 200,000 hours worked compared to an accident rate of 1.50 for the industry (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors) and an accident rate of 0.42 by AKITA in 2003. Despite the higher accident rate in 2004, AKITA's safety performance has outperformed industry averages in each year since inception.

AKITA is strongly committed to the ongoing safety of its employees. The Company incorporates methods to eliminate or reduce hazards in the design of equipment as well as through the use of standardized operating procedures that are regularly updated. The managers, employees and subcontractors are all required to understand and accept their responsibility for maintaining

On the job training – part of safety

Photo credit: David Watt Photography

a safe working environment. The setback in accident performance in 2004 has resulted in an increased resolve to achieve improved results in this area. The Company has increased resources dedicated to achieve its 2005 targets.

AKITA has had a long-standing commitment to ensure that its daily operations are environmentally responsible and are in compliance with all regulatory requirements. The Company continually monitors products used and procedures followed in its operations as well as changes in regulations to ensure responsible management of environmental issues. The Board of Directors receives regular reports regarding compliance with AKITA's comprehensive environmental management programs. AKITA's programs have been in place for many years and are continually monitored, improved upon, and supplemented, as circumstances warrant.

Management's Discussion & Analysis

The following sets out management's analysis of the financial position, cash flows and results of operations for AKITA Drilling Ltd. (also referred to as "AKITA" or "the Company") for the years ended December 31, 2004 and 2003. The information is intended to assist readers in analysing the financial affairs of the Company. In addition to the information in this section, AKITA's audited financial statements for 2004 and 2003, including notes thereon, found on pages 36 to 44, provide information on the Company's financial position, cash flows and results of its operations. The information in this MD&A was approved by AKITA's Board of Directors on March 18, 2005 and incorporates all relevant considerations to that date.

REVENUE AND OPERATING & MAINTENANCE EXPENSES

$Million	*2004*	*2003*	*Change*	*%*
Revenue	135.7	124.1	11.6	9%
Operating & Maintenance Expenses	79.6	74.8	4.8	6%

Overall revenue increased to $135,747,000 in 2004 from $124,078,000 in 2003 as a result of stronger overall demand in the drilling sector. This high demand for rigs had the corollary impact of increasing dayrates. All depth ranges were in demand during the year, however wet weather during the second and third quarters restricted access to many locations, which particularly affected shallower capacity rigs due to the higher frequency of moving. In addition to an increase in total revenue, revenue per operating day increased to $19,509 during 2004 from $17,378 per operating day in 2003 due to stronger market conditions. Operating and maintenance costs vary directly with revenue and amounted to $79,563,000 or $11,435 per operating day during 2004 compared with $74,811,000 or $10,478 per operating day for the prior year.

The Company's operations are all within the contract drilling and well servicing segment and are conducted in Western Canada and the Northern Territories. Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on daywork contracts is measured based upon the passage of time in accordance with the terms of the contracts. Daywork contracts represented 96% of all revenue generated in 2004 (2003 – 97%). All contracts being performed at the year-end dates of December 31, 2004 and December 31, 2003 were performed on a daywork basis. No losses were anticipated at either of these year-end dates and accordingly no losses have been provided for.

At December 31, 2004, AKITA had 37 drilling rigs under management (34.075 rigs net), one more drilling rig than at the end of 2003. Commencing October 1, 2004, the

Company also had three well servicing rigs (1.5 rigs net) under management. The Company had no well servicing rigs under management in 2003. AKITA provided drilling services to 67 customers in 2004 (2003 - 64 customers) including two customers that each provided more than 10% of AKITA's revenue for the year (2003 – five customers).

DEPRECIATION EXPENSE

$Million	*2004*	*2003*	*Change*	*%*
Depreciation Expense	11.3	9.4	1.9	19%

AKITA depreciates its drilling rigs using the unit of production method. Most of these drilling rigs are depreciated based on an estimated service life of 2,000 operating days per drilling rig, although the Company records depreciation on five of its newest deep drilling rigs over an estimated service life of 3,600 operating days per drilling rig. Unlike other drilling rigs in AKITA's fleet, in particular those that were already owned by AKITA when it became a public company in 1993, the drilling rigs depreciated over 3,600 operating days are newly constructed and are subject to fewer moves than the smaller sized drilling rigs in AKITA's fleet. The increase in depreciation expense to $11,263,000 during 2004, from $9,432,000 during 2003, was mostly attributable to the increase in operating days of newer drilling rigs over the prior year as well as an increasing average cost base for the fleet when considered on a rig-by-rig basis. Management assesses the estimated remaining life of its rigs annually. Assets other than drilling rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation.

SELLING AND ADMINISTRATIVE EXPENSES

$Million	*2004*	*2003*	*Change*	*%*
Selling & Admin Expense	13.5	11.5	2.0	17%

Selling and administrative expenses were 9.9% of total revenue in 2004 compared to 9.3% of total revenue in 2003. The single largest component was salaries and benefits, which accounted for 62% of these expenses (63% in 2003).

OTHER INCOME (EXPENSE)

$Million	*2004*	*2003*	*Change*	*%*
Other Income	0.7	0.4	0.3	81%

Gains from the sales of joint venture interests in rigs totalled $509,000 in 2004 compared to $479,000 in the previous year. Interest expense on long-term debt was $724,000 in 2004 compared to $1,045,000 in 2003 as a result of a reduced level of long-term debt. Cash balances held which are surplus to daily operating requirements have decreased slightly to $27.5 million at December 31, 2004 and have resulted in AKITA generating

$920,000 in interest income in 2004 compared to $956,000 in 2003. Therefore, on a "net interest basis" (i.e. interest expense less interest income) AKITA generated net interest income of $196,000 in 2004 compared to a net interest expense of $89,000 in the previous year.

INCOME TAX EXPENSE

$Million	*2004*	*2003*	*Change*	*%*
Current Tax	9.3	7.6	1.7	22%
Future Tax	1.9	2.3	(0.4)	(16%)

Income tax expense increased to $11,246,000 in 2004 from $9,856,000 in 2003, mostly due to higher pretax earnings, partially offset by lower income tax rates. A smaller portion of 2004 tax expense was classified as future tax as the tax deferral from previous years' rig construction has declined.

NET EARNINGS AND CASH FLOW

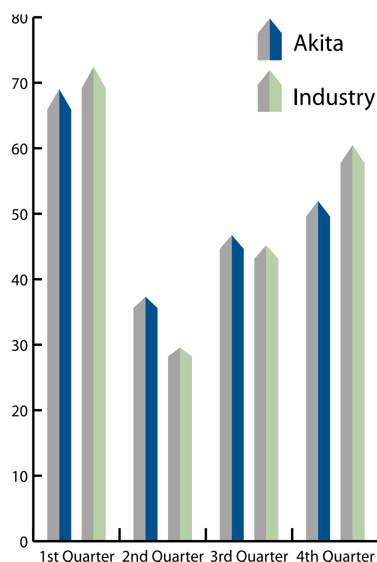
$Million	*2004*	*2003*	*Change*	*%*
Net Earnings	20.9	18.8	2.1	11%
Cash Flow from Operations	33.9	30.4	3.5	12%

Net earnings increased to $20,875,000 or $2.31 per Class A Non-Voting Share and Class B Common Share (diluted - $2.24) for 2004 from $18,822,000 or $2.09 per share (diluted - $2.03) in 2003. Cash flow from operations increased to $33,947,000 in 2004 from $30,426,000 in 2003. Higher dayrates accounted for both the increase in earnings and cash flow.

FLEET AND UTILIZATION

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 2004, AKITA's utilization rate was 52.2%, which was 2.5 percentage points lower than the previous year and 0.8 percentage points lower than the 2004 industry average. Wet weather had an adverse effect on rig utilization in the second and third quarters, particularly for shallow capacity rigs since they are generally subject to the greatest number of rig moves.

In addition to depth capacity, the number of rigs located in the North influences AKITA's utilization. This geographic sector is quite diverse but generally results in shorter drilling seasons than exist for southern locations. In many cases, AKITA receives standby revenue to help offset the higher amount of down time involved in operating in Northern Canada.



The accompanying graph highlights AKITA's 2004 drilling utilization rates compared to the industry average:

Notes:
(1) Drilling utilization rates are average rates based upon the number of days in a 365 day year a rig is operating under contract, excluding move days.
(2) Source: Canadian Association of Oilwell Drilling Contractors

The Canadian drilling and well servicing industry is seasonal with activity building in the fall and peaking during the winter months as northern transportation routes become available when areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak Canadian drilling and well servicing season ends with "spring break-up", at which time drilling and well servicing operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land. AKITA's second quarter utilization was significantly higher than the industry average due to a later spring break-up in remote northern locations. However, many of AKITA's drilling rigs located in these regions are also subject to a much shorter drilling season.

The seasonal level of operations has a corresponding impact on financial results. The following table highlights the seasonal impact of AKITA's operations for 2004 and 2003:

(Dollars in thousands, except per share) (unaudited)

Three Months Ended	*Dec. 31*	*Sept. 30*	*June 30*	*Mar. 31*
2004				
Revenue	37,965	29,600	23,882	44,300
Net earnings	6,694	3,784	2,960	7,437
Basic earnings per share	0.74	0.42	0.33	0.82
Diluted earnings per share	0.71	0.41	0.32	0.80
Cash flow from operations	9,601	6,950	5,6491	1,747
2003				
Revenue	31,062	28,988	24,741	39,287
Net earnings	5,434	4,134	3,495	5,759
Basic earnings per share	0.60	0.46	0.39	0.64
Diluted earnings per share	0.58	0.45	0.38	0.62
Cash flow from operations	7,478	7,073	5,824	10,051

During the fourth quarter of 2004, the activity for the Company included 1,805 operating days compared to 1,703 operating days during the corresponding period in 2003. The stronger market conditions in 2004 affected overall revenue rates for the fourth quarter as well (revenue rates equated to $21,033 per operating day in the fourth quarter of 2004 versus $18,240 in the fourth quarter of 2003). The higher rig activity and revenue rates in the fourth quarter of 2004 compared to the corresponding quarter in 2003

resulted in corresponding increases in earnings, earnings per share and cash flow from operations. Overall liquidity increased at December 31, 2004 compared to the corresponding 2003 year-end date, particularly as measured in terms of overall working capital. Year over year working capital increased as a result of higher levels of accounts receivable (due to higher revenue rates and more activity) coupled with reduced levels of long term debt and the conversion of Preferred Shares. However, the 2004 year-end cash balance was marginally lower than the corresponding balance at the end of 2003 (2004 - $27,452,000; 2003 - $27,906,000).

The following table highlights AKITA's financial results for the last three years:

(Dollars in thousands, except per share)

Three Year Summary	*2004*	*2003*	*2002*
Revenue	135,747	124,078	102,895
Net earnings	20,875	18,822	14,345
Basic earnings per share	2.31	2.09	1.58
Diluted earnings per share	2.24	2.03	1.54
Dividends per Class A Non-Voting and Class B Common share	0.40	0.36	0.36
Cash flow from operations	33,947	30,426	27,459
Working capital	40,414	24,319	26,551
Long term debt	3,973	9,339	14,382
Shareholders' equity	124,926	103,590	90,947
Total Assets	162,957	150,901	133,901

LIQUIDITY AND CAPITAL RESOURCES

AKITA has typically generated sufficient cash flow from operations to fund its normal operating activities as well as capital expenditures. In years in which no new rigs are built under contract, the Company typically restricts capital expenditures to less than 50% of cash flow from operations. In 2004, AKITA's capital expenditure program of $15,308,000 represented 45% of cash flow from operations.

At December 31, 2004, AKITA had $40,414,000 in working capital including $27,452,000 in cash, compared to $24,319,000 in working capital, including $27,906,000 in cash, for the previous year. In 2004, a record amount of cash was generated from operations ($33,947,000) due to strong market conditions. Cash was also generated through proceeds from asset sales ($1,135,000) and proceeds from the exercise of stock options ($70,000). During the same period, cash was used for capital expenditures for the year ($15,308,000), increased non-cash working capital due to strong market demand particularly at year-end ($10,238,000), repayment of debt in accordance with the terms of the bank loan agreement ($5,366,000), payment of dividends ($3,641,000) and repurchasing share capital ($1,053,000).

AKITA's bank operating line is unchanged at $10 million from the prior year. Interest is payable on the operating line at prime interest rates and is secured by accounts receivable.

The total amount of available financing varies with receivable balances. This operating line was not drawn upon at December 31, 2004.

In 2001, AKITA established a term loan facility totalling $40 million to partially fund construction of drilling rigs. Interest is payable on the outstanding balance at 6.24%. Term loans were based upon maximum terms of four years and allow for early repayment at AKITA's option. Certain assets, promissory notes and an assignment of insurance proceeds on certain assets have been pledged as security for this facility. At December 31, 2004, AKITA had a balance of $3,973,000 outstanding from this term loan facility. The loan is scheduled to be fully repaid in 2005.

In 2002, AKITA established a renewable borrowing facility of up to $20 million at prime plus ½%, pledging similar security as described herein for the existing term facility. The Company has not drawn upon this facility during the year.

In 2001, AKITA issued 333,350 Cumulative Redeemable Convertible Preferred Shares (the "Preferred Shares") for total proceeds of $5 million. The Preferred Shares paid dividends at 4% and carried the right to be converted on November 30, 2004 into Class A Non-Voting Shares on a one for one basis. The owner of the Preferred Shares exercised its conversion rights on November 30, 2004.

During 2004, the Company repurchased 41,400 Class A Non-Voting shares at an average price of $25.43 pursuant to its Normal Course Issuer Bid.

In 2004, AKITA relocated and entered into a new lease for its head office. Commencing in 2005, the annual cost will be approximately $296,000. The lease expires on December 31, 2009.

The following table provides a summary of contractual obligations for the Company:

Contractual Obligations ($000's)	*Total*	*Less than 1 Year*	*1 – 3 Years*	*4 – 5 Years*	*After 5 Years*
Long-term debt	3,973	3,973	Nil	Nil	Nil
Capital lease obligations	Nil	Nil	Nil	Nil	Nil
Operating leases	1,480	296	592	592	Nil
Purchase obligations	500	163	337	Nil	Nil
Pension obligations	2,850	Nil	Note	Note	Note
Total contractual obligations	8,803	4,432	Note	Note	Note

Note: Timing of pension obligations is dependent upon retirement dates for respective employees. The cost from year one to three ranges from Nil to $580,000 from year four to five ranges from Nil to $595,000 with the balance being due after five years in any event.

FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities during the year included cash, accounts receivable, accounts payable and long-term debt. During the year, the Company did

not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated.

Management considers the credit risk associated with accounts receivable to be generally low as substantially all counterparties are well established and financed oil and gas companies. AKITA has detailed credit-granting procedures and in certain situations may require customers to make advance payment prior to provision of services or take other measures to help reduce credit risk. Provisions have been estimated by management and included in the accounts to satisfy any potential bad debts.

Additionally, the Company's financial instruments include long-term debt that bears interest at 6.24%, which approximates fair value.

OFF-BALANCE SHEET TRANSACTIONS

AKITA has not entered into any arrangements that involve off-balance sheet transactions.

RELATED PARTY TRANSACTIONS

AKITA is affiliated to the ATCO Group of companies and to Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Capital purchases totalled $199,000 and relate to the purchase of wellsite trailers. Operating purchases totalled $421,000 and included computer services ($114,000), sponsorship and advertising ($158,000), audiovisual services ($56,000) and other ($93,000). In 2004, the Company entered into a four-year sponsorship and advertising contract with Spruce Meadows at a total cost of $658,000, including $158,000 for 2004 and $163,000 for 2005. Costs and related services are consistent with parties dealing at arms length.

CLASS A AND CLASS B SHARE DIVIDENDS

Per Share	*2004*	*2003*	*Change*	*%*
Dividends per share	0.40	0.36	0.04	11%

During 2004, AKITA paid dividends totalling $0.40 per share ($3,641,000) on its Class A Non-Voting and Class B Common Shares, up from $0.36 per share ($3,335,000) for 2003. The payment of any dividends is at the discretion of the Board of Directors and depends upon the financial condition of AKITA and other factors. Since the inception of the quarterly dividend program, dividends have been paid in each quarter of every year. The most recent dividend was declared on March 18, 2005 with a dividend rate of $0.11 per share.

CLASS A NON-VOTING AND CLASS B COMMON SHARES

AUTHORIZED

An unlimited number of Class A Non-Voting Shares
An unlimited number of Class B Common Shares

ISSUED

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	*Consideration ($000's)*	*Number of Shares*	*Consideration ($000's)*	*Number of Shares*	*Consideration ($000's)*
December 31, 2002	8,321,079	$17,535	828,342	$1,368	9,149,421	$18,903
Stock option plans	14,000	77	-	-	14,000	77
Purchased	(140,500)	(293)	-	-	(140,500)	(293)
December 31, 2003	8,194,579	$17,319	828,342	$1,368	9,022,921	$18,687
Conversion of Preferred Shares	333,350	5,000	-	-	333,350	5,000
Stock Option Plans	8,000	70	-	-	8,000	70
Conversions, Class B to Class A	1,200	2	(1,200)	(2)	-	-
Purchased	(41,400)	(88)	-	-	(41,400)	(88)
December 31, 2004	8,495,729	$22,303	827,142	$1,366	9,322,871	$23,669
Exercisable Options @ Dec. 31, 2004	49,750					
Unexercisable options @ Dec. 31, 2004	61,250					

The Company did not adopt any new accounting standards or accounting policies in 2004.

CAPITAL ASSETS

Capital expenditures totalled $15,308,000 in 2004. The single largest capital expenditure was the addition of a new 3,300 metre rig that was completed in the third quarter at a cost of $4,827,000. On October 1, 2004, AKITA Equtak Drilling, a joint venture owned 50% by AKITA Drilling Ltd. purchased substantially all of the assets of Western Oilfield Servicing Ltd. AKITA's share of the cost was $2,018,000. The acquisition includes three well servicing rigs plus related equipment. Additional capital expenditures relate to rig equipment ($6,243,000), drill pipe and drill collars ($1,817,000) and vehicles and other equipment ($403,000). Capital expenditures for 2003 totalled $17,261,000.

AKITA's net book values for rigs and related equipment were significantly lower than current replacement costs. At year-end, the average net book value of AKITA's rig fleet was $2.6 million per drilling rig and $0.7 million per well servicing rig.

Management reviews its assets on an annual basis and makes a determination based upon its own knowledge of the assets to ensure each net recoverable amount (based on future net cash flows) will be achieved over remaining service lives. No adjustments were made in 2004 or 2003 to carrying values as a result of this review.

ACCOUNTING ESTIMATES

The preparation of AKITA's financial statements includes significant estimates relating to the useful lives of drilling and well service rigs. Management determines, based upon a detailed assessment of the age and quality as well as the type of wells being drilled or serviced by each rig, the likely useful remaining life for each rig. Current life estimates for new drilling rigs range from 2,000 operating days to 3,600 operating days. Current life estimates for newly rebuilt drilling rigs are 2,000 operating days. Estimated service lives for well service rigs are 10 years. Depreciation rates have been consistent for the Company since its inception in 1993 and have not resulted in any changes in estimates for any previous period and to date.

AKITA's depreciation estimates do not have any effect on the changes to financial condition for the Company, as depreciation is a non-cash item. However, total assets and results of operations including net income could be either understated or overstated as a result of depreciation estimates that are either too high or too low. It is unlikely that any overstatement or understatement would manifest itself over a relatively short period of less than five years. However, if insufficient depreciation is charged over longer periods, a possibility exists for a significant asset write-down, particularly in periods of weak drilling and well service activity. Management is sensitive to this possibility and takes care to ensure capital assets are not recorded in excess of realizable values.

An additional significant estimate used in the preparation of AKITA's financial statements relates to the defined benefit pension liability for selected employees that was recorded as $2,850,000 at December 31, 2004. AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, as the defined benefit pension is an unfunded non-cash item. However, total assets and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2004, key assumptions relate to the use of a 5.75% discount rate as well as a 3% estimate for the annual rate of compensation growth.

BUSINESS RISKS AND RISK MANAGEMENT

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors, including weather, world oil prices and North American natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long-

term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle.

The success of AKITA also depends on other factors, including competition due to increased capacity in the Canadian fleet as well as technological advances in drilling methods and rig designs and the management of operational and environmental risks.

AKITA manages its risks in these areas by:

- employing well trained, experienced and responsible employees
- ensuring that all employees comply with clearly defined safety standards
- improving the skills of its employees through training programs
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program
- constantly upgrading its rig fleet
- maintaining comprehensive insurance policies with respect to its operations

AKITA is subject to federal, provincial, territorial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from operating drilling rigs.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of hazardous materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as its own well developed and closely monitored internal procedures through a program of regular environmental audits. Some risk of unintentional breaches of environmental protection laws and potential liability is occasionally inherent in particular operations of the industry.

AKITA does not believe that environmental protection laws and regulations affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks. As a matter of policy, AKITA ensures blowout insurance has been obtained by its customers and thereby reduces its related risk.

Drilling in Northern Canada is an important aspect of AKITA's operations. Special challenges are present in order to operate effectively in this region. The North represents a small part of the total Canadian market, is very seasonal and in most cases depends upon frozen conditions and ice. Local businesses, communities and land corporations play a major role in the infrastructure of the North through aboriginal land claim settlements and access agreements. AKITA manages its risks in this region by adding new rigs only on a multi-year contract basis and by working co-operatively in Joint Ventures with aboriginal partners with both partners sharing rig ownership.

SUBSEQUENT EVENT

On March 14, 2005, the Company announced it has signed a 4-year contract with a large independent oil and gas producer to build and operate a rig to perform exploratory drilling services on the North Slope of Alaska. The rig will be built in Canada during the summer of 2005 and operated beginning in 2006 by the newly formed joint venture - Doyon Akita J.V.

FUTURE OUTLOOK

The drilling industry is cyclical and certain key factors that have an impact on AKITA's results are beyond management's control. Like other drilling contractors, AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers.

AKITA's prospects continue to appear positive in the short-term especially as a result of currently high commodity prices for both oil and natural gas. The Canadian Association of Oilwell Drilling Contractors (CAODC) currently forecasts drilling approximately 24,200 wells in 2005 compared to 21,700 wells in 2004. This forecast was based on underlying commodity price forecasts that, to date, have been exceeded. Although factors other than commodity prices (including, but certainly not limited to, political events, natural gas storage levels and cash flows of customers) can influence drilling activity. Year-to-date activity levels for 2005 are indicative that activity levels for 2005 may be higher than CAODC's forecast.

In 2000 and 2001, the Company built five rigs that have been working under long-term contracts. The first of these contracts expired on December 31, 2004 with two more expiring in 2005 and the last two expiring in 2006. The first contract was replaced by a new multi-year arrangement at current market rates with a fixed operating day requirement. Management is uncertain if any of the remaining contracts will be renewed, and if renewed what rates will be realized during any renewal term. Management has established objectives to maximize the earnings and cash flow streams from these rigs after contract expiries and to supplement any shortfalls with new initiatives. At this time, management is uncertain if these objectives will be met.

During 2003, the Company entered into a long-term contract with a large corporation for which the Company constructed a drilling rig. The rig use contract provides for 1,000 operating days over a maximum of four years.

Longer term, the Company remains well positioned as a result of its emphasis on both shallow and deep drilling, and has rigs in position to take advantage of heavy oil and frontier drilling opportunities.

AKITA is continuing to pursue other opportunities, particularly in the North.

NON-GAAP MEASURE

Cash flow from operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining cash flow from operations may differ from methods used by other companies and involves including operating cash flow before working capital changes. Management and certain investors may find cash flow from operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods.

FORWARD-LOOKING STATEMENTS

From time to time AKITA makes forward-looking statements. These statements include but are not limited to comments with respect to AKITA's objectives and strategies, financial condition, results of operations, the outlook for industry and risk management discussions.

By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions and other forward-looking statements will not be achieved. Readers of this MD&A are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers; world oil prices and North American natural gas prices; weather; access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

OTHER INFORMATION

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 18, 2005. Copies of this information including additional copies of the Annual Report for the year ended December 31, 2004 may be obtained upon request from the Vice President Finance of the Company at 900, 311 – 6th Avenue S.W., Calgary, Alberta, T2P 3H2 or at www.sedar.com.

AKITA continually strives to improve its safety performance.
Photo credit: David Watt Photography

Management's Responsibility for Financial Reporting

The accompanying financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to the organization contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, estimates of transactions and operations that were incomplete at year-end have been made by management. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining systems of internal control. These systems are designed to provide assurance that assets are safeguarded from loss or unauthorized use, that transactions are properly recorded and that the financial records are reliable for preparing the financial statements.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the financial statements and have had full access to the Audit Committee. Their report appears on page 32.

The Board of Directors, through its Audit Committee comprised of three non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

John B. Hlavka
President and C.E.O.

Murray J. Roth
Vice President Finance

Auditors' Report

TO THE SHAREHOLDERS OF AKITA DRILLING LTD.

We have audited the balance sheets of AKITA Drilling Ltd. as at December 31, 2004 and 2003 and the statements of earnings and retained earnings and cash flows 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 Canadian 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

February 25, 2005

Balance Sheet

(Dollars in thousands)

December 31		2004	2003
ASSETS			
Current assets			
Cash		$ 27,452	$ 27,906
Accounts receivable		34,926	25,832
Other		104	107
		62,482	53,845
Investments		55	55
Capital assets	Note 2	100,420	97,001
		$162,957	$150,901
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 16,570	$ 15,422
Income taxes payable		1,525	3,820
Current portion of long term debt	Note 4	3,973	5,366
Current portion of series preferred shares	Note 6	-	4,918
		22,068	29,526
Long term debt	Note 4	-	3,973
Future income taxes	Note 10	13,113	11,202
Pension liability	Note 5	2,850	2,610
CLASS A AND CLASS B SHAREHOLDERS' EQUITY			
Series preferred shares	Note 6	-	228
Class A and Class B shares	Note 7	23,669	18,687
Contributed surplus		386	73
Retained earnings		100,871	84,602
		124,926	103,590
		$162,957	$150,901

Approved by the Board

Director

Director

Statement of Earnings and Retained Earnings

(Dollars in thousands, except per share)

Year Ended December 31		**2004**	2003
REVENUE		$135,747	$124,078
COSTS AND EXPENSES			
Operating and maintenance		79,563	74,811
Depreciation		11,263	9,432
Selling and administrative		13,505	11,547
		104,331	95,790
Operating income		31,416	28,288
OTHER INCOME (EXPENSE)			
Interest on long-term debt		(724)	(1,045)
Interest income		920	956
Gain on sale of joint venture interests in rigs		509	479
		705	390
EARNINGS BEFORE INCOME TAXES		32,121	28,678
INCOME TAXES			
Current		9,335	7,586
Future		1,911	2,270
	Note 10	11,246	9,856
NET EARNINGS		20,875	18,822
Retained earnings, beginning of year		84,602	71,816
Dividends		(3,641)	(3,335)
Adjustment on repurchase and cancellation of share capital		(965)	(2,701)
RETAINED EARNINGS, END OF YEAR		$ 100,871	$ 84,602
EARNINGS PER CLASS A & CLASS B SHARE	Note 8		
Basic		$ 2.31	$ 2.09
Diluted		$ 2.24	$ 2.03

Statement of Cash Flows

(Dollars in thousands)

Year Ended December 31	**2004**	2003
OPERATING ACTIVITIES		
Net earnings	$20,875	$18,822
Non-cash items included in earnings		
Depreciation	11,263	9,432
Future income taxes	1,911	2,270
Expense for defined benefit pension plan	240	232
Amortization of preferred share discount	82	76
Stock options charged to expense	85	73
Gain on sale of joint venture interests in rigs	(509)	(479)
Cash flow from operations	33,947	30,426
Change in non-cash working capital	(8,284)	2,338
	25,663	32,764
INVESTING ACTIVITIES		
Capital expenditures	(15,308)	(17,261)
Proceeds on sale of joint venture interests in rigs	1,135	1,139
Change in non-cash working capital	(1,984)	(585)
	(16,157)	(16,707)
FINANCING ACTIVITIES		
Repayment of long-term debt	(5,366)	(5,043)
Dividends	(3,641)	(3,335)
Proceeds received on exercise of stock options	70	77
Repurchase of share capital	(1,053)	(2,994)
Change in non-cash working capital	30	91
	(9,960)	(11,204)
INCREASE (DECREASE) IN CASH	(454)	4,853
Cash position, beginning of year	27,906	23,053
CASH POSITION, END OF YEAR	$27,452	$27,906
Interest paid during the year	$ 645	$ 967
Income taxes paid during the year	$11,630	$ 3,264

Notes to Financial Statements

December 31, 2004

(tabular amounts in thousands of dollars except where noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AKITA Drilling Ltd.'s financial statements are prepared in accordance with accounting principles generally accepted in Canada.

REVENUE RECOGNITION ON CONTRACTS

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. On daywork contracts work in progress is measured based upon the passage of time. Any anticipated loss is provided for in its entirety when the estimated loss is identified.

DEPRECIATION

Drilling rigs are depreciated using the unit of production method based on an initial estimated life of 2,000 or 3,600 operating days per rig depending upon the relative amount of moving required, the age of the equipment when acquired by AKITA as well as other factors that may result in different rates of wear and tear. Well service rigs are depreciated using a straight line basis at 10% per annum.

Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum.

Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 4% to 25% per annum except drilling camps, which are depreciated using a straight-line basis over 10 years.

STOCK BASED COMPENSATION PLANS

The Company has two stock-based compensation plans, which are described in Note 9. AKITA started to record compensation expense, based on the estimated fair value, over the vesting period for stock options granted in 2003 or subsequent years. Any consideration paid by employees on exercise of stock options is credited to share capital. No compensation expense has been recorded for awards granted prior to 2003.

Compensation expense for share appreciation rights is accrued monthly based upon the excess of underlying month-end share price over the base value of the rights. The accrued liability is adjusted for the effect of changes in the underlying share price through charges or credits to compensation expense.

INCOME TAXES

The Company records income taxes using the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using tax rates that are substantively enacted to be in effect when the differences are expected to reverse. The effect of a change in tax rates is recognized in income in the period that the change becomes substantively enacted.

EMPLOYEE FUTURE BENEFITS

The Company accrues for its obligations under its defined benefit pension plan. Costs of these benefits are determined using the projected benefits method prorated on service and reflect management's best estimates of wage and salary increases and age at retirement. Any unrecognized amounts resulting from experience gains or losses or changes in actuarial assumptions in excess of 10% of the actuarial present value of retirement benefits are amortized over the expected remaining service lifetime of each individual on a straight-line basis.

Employer contributions to the defined contribution pension and group RRSP plans are expensed as earned by the employees.

PER SHARE DATA

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effects of all potentially dilutive instruments are included in the weighted average number of shares. It is also assumed that no cash flow or income is earned on the proceeds received from the dilutive shares issued, but rather, the proceeds are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

JOINT VENTURES

The Company conducts most of its operations in Canada's northern territories and certain of its activities in southern Canada via joint ventures. Ownership in and results of operation from these joint ventures are recorded under the proportionate consolidation method whereby only AKITA's share of the assets, liabilities, revenue and expenses are recognized. There are no significant terms or conditions in any of the Company's joint ventures that could have a material financial statement impact.

CASH

Cash comprises cash and highly liquid short-term investments.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Significant estimates used in the preparation of these financial statements include estimates relating to the useful lives of drilling rigs and the measurement of the defined pension liability.

2. CAPITAL ASSETS

	2004		2003	
	Cost	*Accumulated Depreciation*	*Cost*	*Accumulated Depreciation*
Drilling and well service rigs and related equipment	$160,584	$62,068	$147,199	$52,083
Other	4,203	2,299	3,910	2,025
	$164,787	$64,367	$151,109	$54,108
Net Book Value	$100,420		$97,001	

3. CREDIT LINE

The Company has a credit line totalling the lesser of $10 million or 80% of accounts receivable at bank prime secured by a general assignment of accounts receivable. This line was not drawn upon at either December 31, 2004 or December 31, 2003.

4. LONG TERM DEBT

	2004	2003
Bank term loans outstanding	$3,973	$9,339
Current portion	3,973	5,366
	$ -	$3,973

Bank term loans were divided into two equal components at the time financing was arranged, one half bearing interest at prime plus ½% while the second half bears interest at 6.24%. Both portions of each term loan were based upon maximum terms of four years and allow for early repayment at the borrower's option. In 2002 AKITA exercised its option to repay the floating rate portion of its term loans and replaced it with a renewable borrowing facility of up to $20 million under similar terms and conditions. To date, the Company has not drawn upon the replacement facility. The average effective borrowing rate during 2004 was 6.24% (2003 – 6.24%).

Security for bank term loans consists of a general security agreement providing for a fixed charge on certain assets, promissory notes and an assignment of insurance proceeds on certain property and equipment.

The minimum principal payment for 2005 is $3,973,000.

5. PENSION LIABILITY

The Company has a defined contribution pension plan that covers substantially all of its employees. Under the provisions of the plan, the Company contributes 5% of regular earnings for eligible employees on a current basis. In addition, employees having eligible terms of service are subject to admission into the group RRSP plan.

The Company has also established a defined benefit pension plan for selected employees. The defined benefit plan, which provides for pensions based upon the age of the retiree at the date of retirement and in certain cases the final average earnings and is non-contributory and unfunded.

No current service cost was incurred in either 2004 or 2003.

	2004	2003
Accrued benefit obligation as at January 1	$2,610	$2,378
Interest cost	196	193
Actuarial loss	44	39
Accrued benefit obligation as at December 31	2,850	2,610
Unamortized net losses	405	338
Unamortized transitional obligation	294	325
Actuarial present value of defined benefit obligation	$3,549	$3,273

Assumptions (per cent)

	2004	2003
Discount rate	5.75	6.00
Rate of compensation growth	3.0	3.0

No payments were made during the year pursuant to the defined benefit pension plan.

The Company obtains an annual actuarial valuation subsequent to each year-end from an independent actuary. The most recent evaluation was dated January 18, 2005 and was utilized in measuring the December 31, 2004 and December 31, 2003 year-end balances as well as related activities during each of these respective years.

During the year the Company charged $2,780,000 to expense in respect of its defined contribution pension plan (2003 - $2,100,000) and $240,000 to expense in respect of its defined benefit pension plan (2003 - $232,000).

6. SERIES PREFERRED SHARES

AUTHORIZED

An unlimited number of Series Preferred shares, issuable in series, designated as First Preferred shares

An unlimited number of Series Preferred shares, issuable in series, designated as Second Preferred shares

ISSUED

333,350 Series 1, 4% Cumulative Redeemable Convertible Preferred shares

	2004	2003
Face amount	$ -	$5,000
Equity component	-	(228)
Liability at inception	-	4,772
Cumulative accretion	-	146
	$ -	$4,918

The Preferred shares were issued on December 1, 2001 to Sentgraf Enterprises Ltd., a holding company controlled by AKITA's principal shareholder. Pursuant to the Agreement, Sentgraf Enterprises Ltd. exercised its option to convert the Preferred shares at $15.00 per share on November 30, 2004 into Class A Non-Voting shares of the Company on the conversion basis of one Class A Non-Voting share for each Preferred share.

The Preferred shares contained both a liability and an equity element and thus the component parts were classified separately on the 2003 comparative balance sheet. The method of allocation of the total principal amount involved first determining the carrying amount of the financial liability component by discounting the stream of future payments of interest and principal at the assumed market interest rate which would have been negotiated had the preferred shares not included the conversion feature. The carrying amount of the equity instrument component represented by the option to convert the instrument into Class A Non-Voting shares of the Company was then determined by deducting the carrying amount of the financial liability, as determined above, from the amount of the compound instrument as a whole. At the time of exercise of the Preferred shares, the equity element was transferred to Contributed Surplus.

Preferred share dividends and the amortization of the Preferred share discount have been classified as an increase to interest on long-term debt on the Statement of Earnings and Retained Earnings.

7. CLASS A NON-VOTING AND CLASS B COMMON SHARES

AUTHORIZED

An unlimited number of Class A Non-Voting shares
An unlimited number of Class B Common shares

ISSUED

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	*Consideration*	*Number of Shares*	*Consideration*	*Number of Shares*	*Consideration*
December 31, 2002	8,321,079	$17,535	828,342	$1,368	9,149,421	$18,903
Stock Option Plans	14,000	77	-	-	14,000	77
Purchased	(140,500)	(293)	-	-	(140,500)	(293)
December 31, 2003	8,194,579	$17,319	828,342	$1,368	9,022,921	$18,687
Conversion of Preferred Shares	333,350	5,000	-	-	333,350	5,000
Stock Option Plans	8,000	70	-	-	8,000	70
Purchased	(41,400)	(88)	-	-	(41,400)	(88)
Conversion, Class B to Class A	1,200	2	(1,200)	(2)	-	-
December 31, 2004	8,495,729	$22,303	827,142	$1,366	9,322,871	$23,669

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for

the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

On May 30, 2003, the Company commenced a normal course issuer bid for the purchase of up to 5% of the outstanding Class A Non-Voting shares. The offer expired on May 29, 2004. No shares were repurchased under this bid.

On June 4, 2004, the Company commenced a new normal course issuer bid for the purchase of up to 5% of the outstanding Class A Non-Voting shares. The offer will expire on June 3, 2005. In 2004, 41,400 shares were repurchased and cancelled under this bid at a cost of $1,053,000 of which $88,000 was charged to share capital and $965,000 to retained earnings.

8. EARNINGS PER SHARE

	2004	2003
Net earnings	$20,875	$18,822
Weighted average outstanding shares	9,051,696	9,020,033
Incremental shares	347,478	363,667
Adjustment to earnings for preferred share conversion	$ 183	$ 200
Basic earnings per share ($)	$ 2.31	$ 2.09
Diluted earnings per share ($)	$ 2.24	$ 2.03

9. STOCK BASED COMPENSATION PLANS

At December 31, 2004, the Company had two fixed stock-based compensation plans, which are described below.

The Company's Compensation and Succession Committee, subject to Board approval, may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting shares. A maximum of 850,000 Class A Non-Voting shares have been reserved for issuance pursuant to outstanding options. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the date of grant.

In addition to stock options, share appreciation rights (SARs) may be granted to directors, officers and key employees of the Company. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. The holder is entitled on exercise to receive a cash payment from the Company equal to any increase in the market price of the Class A Non-Voting shares over the base value of the SAR exercised. The base value is equal to the closing price of the Class A Non-Voting shares on the day before the grant.

A summary of the status of the Company's stock based compensation plans as of December 31, 2004 and 2003, and changes during the years ended on those dates is presented below:

	2004		2003	
	Shares	*Weighted Average Exercise Price ($)*	*Shares*	*Weighted Average Exercise Price ($)*
Outstanding at beginning of year (options and SARs)	164,000	13.46	116,000	9.08
Granted	-	-	62,000	19.88
Exercised	(33,000)	8.91	(14,000)	5.53
Outstanding at end of year (options and SARs)	131,000	14.61	164,000	13.46
Options exercisable at year-end	49,750	12.42	27,400	9.61
SARs exercisable at year-end	20,000	8.98	45,000	8.98

The following table summarizes information about stock based compensation plans as of December 31, 2004:

Nature of Compensation	*Exercise Price*	*Number Outstanding*	*Remaining Contractual Life (years)*	*Number Exercisable*
SARs	8.98	20,000	2.0	20,000
Options	7.39	4,000	4.1	4,000
Options	8.59	9,000	5.0	9,000
Options	10.80	35,000	6.0	24,000
Options	16.81	1,000	7.6	600
Options	19.88	62,000	8.2	12,150

Share appreciation rights expense for the year ended December 31, 2004 amounted to $115,000 (2003 –$144,000).

During 2004, the Company recorded compensation expense and a corresponding increase to contributed surplus of $85,000 for options granted in 2003 (2003 - $73,000). Compensation expense was determined based on the following assumptions:

Risk free interest rate	4.63%
Expected volatility	32%
Dividends yield rate	1.81%
Weighted average expected life of options	7 years

The Company did not account for the fair value of options issued in 2002 as pursuant to the transitional provisions of the CICA Handbook Section 3870. "Stock based Compensation and Other Stock based Payments". If the Company had accounted for options issued in 2002, the effect on the financial statements would not be material.

10. INCOME TAXES

The income tax provision differs from that which would be computed using the statutory rate. A reconciliation of the differences follows on the next page:

	2004	2003
Earnings before income taxes	$32,121	$28,678
Expected income tax at statutory rate of 34.71% (2003 – 37.09%)	11,149	10,637
Add (Deduct):		
Reduction in future income tax rates	(50)	(469)
Prior year tax recovery	-	(521)
Permanent differences	11	106
Large corporations tax and other	154	103
Income tax expense	$11,246	$ 9,856

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

	2004	2003
Capital assets	$40,569	$35,391
Employee pension and SAR benefits	(3,210)	(3,293)
Other	617	(175)
	37,976	31,923
Expected future income tax rate	34.53%	35.09%
Future income taxes at expected tax rate	$13,113	$11,202

11. RELATED PARTIES

The Company is related to the ATCO Group of companies and to Spruce Meadows through its majority shareholder. The accompanying table summarizes transactions and year-end balances with those affiliates. These transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Each were considered to be at fair market value.

	2004	2003
Revenue	$ -	$ -
Purchases		
Capital	199	214
Operating	421	381
Year end accounts receivable	-	-
Year end accounts payable	16	11

12. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities as at December 31, 2004 included cash, accounts receivable, accounts payable and long-term debt. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated.

The credit risk associated with accounts receivable is generally considered to be low since substantially all counterparties are well established and financed oil and gas companies. Provisions have been estimated by management and included in the accounts to satisfy any potential bad debts.

Additionally, the Company's financial instruments include long-term debt that bears interest at 6.24%, which approximates fair value.

13. JOINT VENTURES

The following table summarizes AKITA's share of assets, liabilities, revenues and expenses related to the Company's Joint Venture operations:

	2004	2003
Current assets	$4,891	$3,993
Capital assets, net of accumulated depreciation	46,832	41,995
Current liabilities	5,154	6,152
Long-term liabilities	-	3,973
Revenue	26,099	24,215
Expenses	16,865	15,471
Net earnings	9,234	8,744
Cash flow from operating activities	11,814	12,669
Cash flow from financing activities	(5,366)	(5,043)
Cash flow from investing activities	(4,268)	-

14. SIGNIFICANT CUSTOMERS

During 2004, two customers (2003 – five customers) each provided more than 10% of AKITA's total revenue. In management's assessment, the future viability of the Company is not dependent upon any one of these major customers.

15. COMMITMENTS

During 2000 and 2001, the Company entered into long-term contracts with large corporations for which the Company constructed five drilling rigs. Four of these commitments were made by AKITA EQUTAK Drilling Ltd., a joint venture controlled 50% by AKITA, while the fifth commitment was made by the Company directly. The first rig use contract expired in 2004 and the four remaining rig use contracts will expire in 2005 – 2006.

During 2003, the Company entered into a long-term contract with a large corporation for which the Company constructed a drilling rig. The rig use contract provides for 1,000 operating days over a maximum of four years.

During 2004, the Company entered into a four-year contract to provide sponsorship and advertising to a related company at a cost of $658,000 including $158,000 for 2004.

The Company leases its office space at an annual cost of approximately $296,000 per year. This lease expires on December 31, 2009.

10 Year Financial Review

(Dollars in thousands, except per share and per operating day)

	2004 Ranking	2004	2003	2002
SUMMARY OF OPERATIONS				
Revenue	1	$135,747	$124,078	$102,895
Earnings before income taxes	1	$ 32,121	$ 28,678	$ 23,473
Income taxes	2	$ 11,246	$ 9,856	$ 9,128
Net earnings	1	$ 20,875	$ 18,822	$ 14,345
As a percentage of average shareholders' equity	7	18.3%	19.4%	16.7%
Earnings per Class A and Class B share	1	$ 2.31	$ 2.09	$ 1.58
Cash flow from operations	1	$ 33,947	$ 30,426	$ 27,459
As a percentage of average shareholders' equity	6	29.7%	31.3%	32.0%
FINANCIAL POSITION AT YEAR END				
Working capital	1	$ 40,414	$ 24,319	$ 26,551
Current ratio	5	2.83:1	1.82:1	2.52:1
Total assets	1	$162,957	$150,901	$133,901
Shareholders' equity	1	$ 124,926	$103,590	$ 90,947
per share	1	$ 13.40	$ 11.48	$ 9.94
OTHER				
Capital expenditures (Net)	5	$ 15,308	$ 16,122	-$ 2,061
Depreciation	1	$ 11,263	$ 9,432	$ 8,819

2001	2000	1999	1998	1997	1996	1995
$110,844	$88,441	$61,316	$75,463	$89,100	$63,340	$57,429
$ 30,395	$19,792	$ 9,194	$19,762	$21,421	$12,841	$11,200
$ 12,506	$ 8,635	$ 3,983	$ 6,855	$10,058	$ 5,728	$ 5,147
$ 17,889	$11,157	$ 5,211	$12,907	$11,363	$ 7,113	$ 6,053
25.8%	18.0%	9.0%	24.0%	25.5%	19.3%	19.8%
$ 1.97	$ 1.23	$ 0.56	$ 1.36	$ 1.20	$ 0.77	$ 0.66
$ 26,959	$17,110	$10,894	$17,914	$15,467	$ 9,713	$ 8,475
38.9%	27.6%	18.5%	33.3%	34.7%	26.3%	27.8%
$ 19,823	$17,227	$30,368	$30,481	$23,883	$26,844	$20,932
1.77:1	2.07:1	3.67:1	4.16:1	2.04:1	3.47:1	3.28:1
$145,859	$85,529	$73,463	$70,032	$73,947	$53,603	$44,610
$ 80,472	$65,624	$58,170	$58,190	$48,767	$40,460	$33,388
$ 8.84	$ 7.23	$ 6.35	$ 6.13	$ 5.13	$ 4.27	$ 3.66
$ 54,319	$26,548	$ 7,670	$ 7,832	$15,372	$ 3,760	$ 3,655
$ 7,763	$ 6,551	$ 5,627	$ 5,022	$ 4,247	$ 2,547	$ 2,206

Corporate Information

DIRECTORS

William L. Britton, Q.C.
Vice Chairman of the Board and Lead Director, ATCO Ltd. and Canadian Utilities Limited
Calgary, Alberta

Linda A. Heathcott
Executive Vice President, Spruce Meadows,
President, Team Spruce Meadows Inc.
Deputy Chairman of the Board of the Corporation
Calgary, Alberta

John B. Hlavka
President and Chief Executive Officer of the Corporation
Calgary, Alberta

William R. Horton
Corporate Director
Winfield, British Columbia

Dale R. Richardson
Vice President, Sentgraf Enterprises Ltd.
Calgary, Alberta

Margaret E. Southern,
O.C., L.V.O., LL.D.
President, Spruce Meadows
Calgary, Alberta

Nancy C. Southern
President and Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited
Calgary, Alberta

Ronald D. Southern,
O.C., C.B.E., C.M., LL.D.
Chairman, ATCO Ltd. and Canadian Utilities Limited,
Chairman of the Board of the Corporation
Calgary, Alberta

C. Perry Spitznagel
Partner, Bennett Jones LLP
Calgary, Alberta

Charles W. Wilson
Corporate Director
Evergreen, Colorado

OFFICERS

John B. Hlavka
President and Chief Executive Officer

Robert J. Hunt
Senior Vice President, Marketing and the North

Craig W. Kushner
Corporate Secretary and Human Resources Administrator

Murray J. Roth
Vice President Finance

Karl A. Ruud
Executive Vice President and Chief Operating Officer

HEAD OFFICE

AKITA Drilling Ltd.,
900, 311 – 6th Avenue S.W.,
Calgary, Alberta T2P 3H2
(403)292-7979

BANKER

Alberta Treasury Branches,
Calgary, Alberta

COUNSEL

Bennett Jones LLP,
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers LLP,
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company,
Calgary, Alberta and Toronto, Ontario
1-800-387-0825

SHARE SYMBOL/TSX

Class A Non-Voting (AKT.NV.A)
Class B Common (AKT.B)

WEBSITE

www.akita-drilling.com

AKITA'S NORTHERN JOINT VENTURES

Akita Equtak
Akita Sahcho
Akita Sahtu
Akita Kaska
Akita Trailbreaker
Akita Wood Buffalo

HEAD OFFICE

AKITA Drilling Ltd.,
900, 311 – 6th Avenue S.W.,
Calgary, Alberta T2P 3H2
www.akita-drilling.com