

making a **difference**



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Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Monday May 7, 2007 at the Metropolitan Conference Centre, 333 – 4th Avenue S.W., 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.

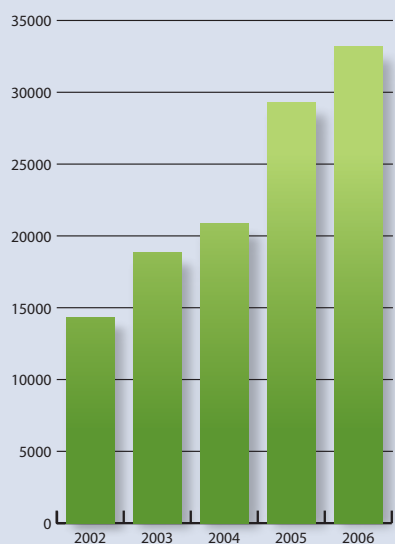
The background of the entire page is a photograph of an oil drilling rig in a winter setting. The rig is a tall, white lattice structure with a red top section, situated in a snowy field. In the foreground, there are several evergreen trees heavily laden with snow, their branches drooping under the weight. The sky is overcast and grey. The overall scene conveys a sense of industrial activity in a cold, remote environment.

Corporate Profile

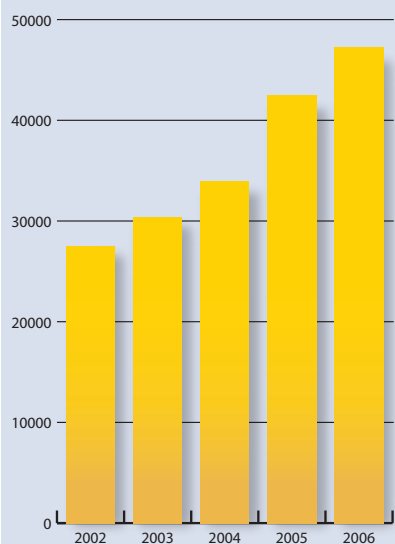
AKITA Drilling Ltd. is a premier oil and gas drilling and well servicing contractor with operations throughout Western Canada, Canada's Northern Territories and the North Slope of Alaska. The Company strives to be the industry leader in matters of customer relations, employee expertise, safety, equipment 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 under balanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs at full operations approximately 850 people. The Company has ownership in 40 drilling rigs in all depth ranges. In addition, the Company operates three well service rigs in Western Canada.

Operational Performance

Net Earnings
(000's)



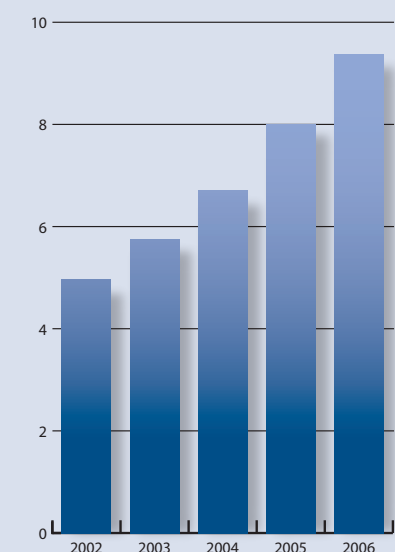
Funds Flow
(000's)



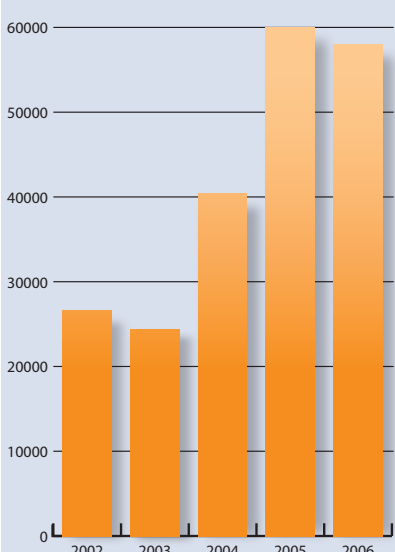
Strong market conditions in 2006 led to record high activity in the overall drilling sector. Coupled with increased day rates, this resulted in AKITA's profitability reaching a record level in 2006 for the fourth consecutive year. The strength in the market was most evident in the first and second quarters. AKITA has achieved positive earnings in each quarter of its existence.

Funds flow from operations also reached record levels due to strong prices and increased day rates, more than offsetting declines in standby revenues from rigs on long-term contracts. Strong funds flow has helped to reinforce the company's commitment to maintain its equipment in superior operating condition, and to capitalize on changing market opportunities.

Equity per Share
(\$)



Year-end Working Capital
(000's)



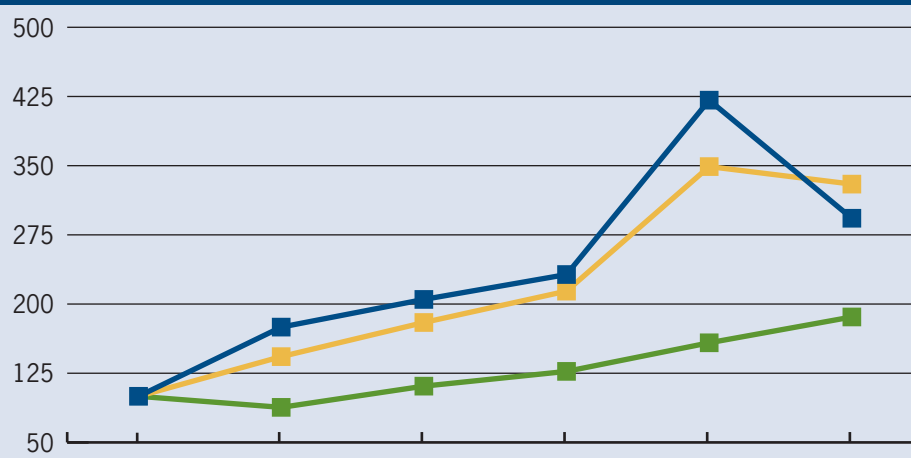
AKITA has always maintained a significant liquidity position. The 2006 year-end working capital balance of \$56,681,000 gives great flexibility in its ability to manage its financial affairs.

Equity per share grew 17.9% on a one year basis, and 16.4% compounded over the past five years.

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, 2001 with the cumulative total return of the S&P/TSX Composite Stock Index over the same period, assuming reinvestment of dividends.

Five Year Total Return on \$100 Investment



	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006
AKITA Class A	100	175	205	232	421	293
AKITA Class B	100	143	180	214	349	330
S&P/TSX Composite Index	100	88	111	127	158	185

Share Performance

All references to weighted average number of Class A Non-Voting and Class B Common shares outstanding, shares traded, prices per share and dividends per share have been retroactively restated to reflect the Company's two-for-one share split implemented on June 8, 2005.

		2002	2003	2004	2005	2006
Weighted average number of Class A and Class B shares		18,178,342	18,178,342	18,103,392	18,591,334	18,323,342
Market Prices for Class A Shares	High	\$ 10.48	\$ 12.33	\$ 13.75	\$ 24.20	\$ 26.35
	Low	\$ 6.00	\$ 9.38	\$ 11.80	\$ 13.18	\$ 16.20
	Close	\$ 10.98	\$ 12.08	\$ 13.49	\$ 24.20	\$ 16.65
Volume		4,315,700	2,987,662	4,473,998	4,053,605	4,522,599
Market Prices for Class B Shares	High	\$ 10.50	\$ 13.00	\$ 15.50	\$ 29.00	\$ 28.52
	Low	\$ 6.50	\$ 9.35	\$ 12.30	\$ 14.75	\$ 21.50
	Close	\$ 9.80	\$ 12.13	\$ 14.25	\$ 23.00	\$ 21.50
Volume		16,096	15,902	11,914	12,854	13,362

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.

	2002	2003	2004	2005	2006
Dividends paid per share (\$)	0.18	0.18	0.20	0.225	0.24

Letter to the Shareowners

During 2006, AKITA achieved record earnings of \$33,755,000 or \$1.83 per share on revenue of \$174,543,000. Comparative figures for 2005 were \$29,264,000 or \$1.57 per share on revenue of \$162,110,000. Funds flow from operations for the current year also reached a record level of \$47,199,000 as compared to \$42,421,000 in 2005.



Linda A. Heathcott
Chairman of the Board



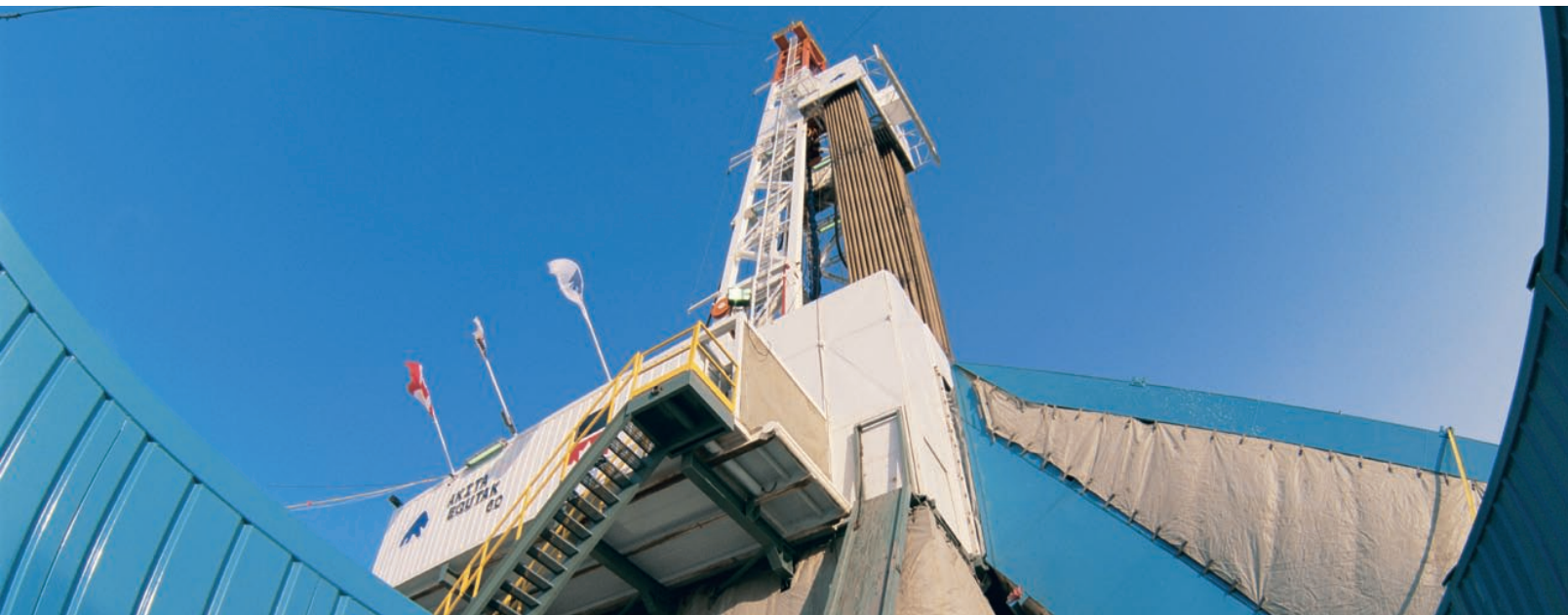
John B. Hlavka
Chief Executive Officer

Much of the financial success in 2006 occurred in the first half of the year. Demand for shallow capacity rigs, and to a lesser degree, deep drilling rigs, tapered off starting in the third quarter, primarily as a result of weakness in natural gas prices. Since demand for medium capacity rigs and heavy oil pad rigs is largely influenced by oil prices, demand for these types of equipment remained strong throughout the year. AKITA's drilling rig utilization in 2006 was 56.5% compared to the industry average of 55.1% and AKITA's utilization of 59.3% in 2005.

In addition to the strong market conditions, particularly notable in the first half of the year, AKITA also benefited from recording future tax benefits of \$1,800,000 and a one time reduction in expenses related to GST.

AKITA participates in all major drilling market segments in Western Canada as well as in Canada's Northern Territories and Alaska. The Company maintains a balanced fleet of rigs that includes 11 singles, 15 doubles and 13 triples. This rig fleet diversity helps ensure AKITA's continuing activity even during periods when particular elements of the drilling cycle, such as natural gas drilling, are out of general favour with AKITA's customers. In turn, the currently higher oil drilling activity level helps to ensure that AKITA retains a core of qualified personnel.

The Letter to the Shareowners delivered in 2005 reported that the Company expanded its market area to include Alaska by operating a newly constructed rig under a four-year contract. In 2006, a second 3,350 metre capacity rig was constructed for the Doyon Akita Joint Venture at a cost of \$7,594,000 (net cost to AKITA) and commenced operations on a multi-year contract in Alaska. As well, an existing rig, of which AKITA owns 50%, from AKITA's fleet was deployed into Alaska during the fourth quarter of 2006. At year-end, AKITA's fleet stood at 39 drilling rigs (35.575 net drilling rigs), including three drilling rigs (50% ownership) in Alaska. In addition, the Company has three well servicing rigs (50% ownership), all of which operate in southern Canada.



AKITA's business strategy is driven by a commitment to create shareowner value through the provision of excellent equipment and high quality service.

AKITA had three drilling rigs under construction throughout 2006. The first of these rigs, a shallow capacity rig, commenced operations in early January of 2007. Two heavy oil pad rigs remain under construction and are expected to be operational by the second quarter of 2007.

AKITA's continuing strong cash position provides the Company with the flexibility to evaluate a broad range of alternatives to enhance shareowner value including meeting the Company's long-term strategy to have significant investments in purpose-built arctic and heavy oil rigs. AKITA's board of directors and management are actively considering appropriate investment alternatives, including a number of strategic options that may require longer lead times to develop.

The development of highly skilled employees is of fundamental importance to AKITA. During 2006, over 400 employees participated in industry supported apprenticeship training as well as other industry standardized programs. Additionally, the Company supports a variety of on-the-job as well as technically oriented training initiatives including leadership, management and safety training that are unique to AKITA.

During 2006, the commitment of management and staff towards eliminating hazards allowed AKITA to improve its positive results with respect to safety performance, resulting in AKITA's second best safety record in its history. In seven of the past eight years, AKITA has been recognized by the Canadian Association of Oilwell Drilling Contractors for its industry-leading safety performance.

Market conditions are expected to weaken in the current year compared to 2006. The current market forecast from the Canadian Association of Oilwell Drilling Contractors anticipates the drilling of approximately 19,000 wells in 2007 compared to 22,127 wells actually drilled in 2006. This forecast was based on average commodity price assumptions of US\$65 per barrel of oil and US\$6.50 per mcf for natural gas, and anticipates that most of this 14% reduction in wells will be related to shallow drilling, including drilling for coalbed methane. It is anticipated that the negative impact of any slowdown would be mitigated by AKITA's ten rigs on take-or-pay contracts that do not expire prior to the end of the 2007 fiscal year. Additionally, the Company has historically demonstrated an ability to outperform industry utilization, particularly during periods of lower activity. Management anticipates that the combination of premium equipment owned by AKITA coupled with highly qualified and motivated staff will once again result in relatively higher utilization and continued earnings for shareowners.

In October 2006, AKITA's board of directors approved the payment of an increased quarterly dividend of \$0.07 per share. This represents an increase of 16.7% calculated on an annual basis. During the year, the Company made direct contributions to enhance shareowner value through purchases pursuant to its Normal Course Issuer Bid by repurchasing 257,400 Class A Non-Voting Shares (1.5% of the class) at an average price of \$19.46 per share.

AKITA was pleased to announce, effective May 8, 2006 the addition of Mrs. Loraine Charlton and Mr. Art Eastly to its board of directors. Mrs. Charlton and Mr. Eastly each possess a broad range of skills and background within the energy industry, and both have made and will continue to make significant contributions as members of the Company's Audit Committee.

We wish to thank the board of directors for its 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,




Linda A. Heathcott
Chairman of the Board



John B. Hlavka
Chief Executive Officer

March 19, 2007

A full-page photograph of two men in industrial workwear. They are wearing blue overalls with reflective yellow stripes, white hard hats, and safety glasses. They are standing on a metal platform at an industrial site, possibly a drilling rig, with various pipes and machinery visible in the background. The man on the left is wearing a white hard hat and has a patch on his sleeve. The man on the right is wearing a black hard hat and has a mustache. They appear to be in conversation.

It is AKITA's goal to ensure that every well is professionally managed in order to develop the strongest possible working relationships with its customers.



AKITA currently has two self-propelled pad rigs under construction in order to increase its market share in heavy oil drilling.




Heavy Oil

During 2006, the Company drilled 403 heavy oil pad wells, up from 249 in 2005. 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. In order to meet this developing demand, AKITA owns three specialty pad rigs and is in the process of constructing two additional “state of the art” pad rigs.

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 2006, this represented more than one-third of the heavy oil wells drilled by the Company. Second, 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 operating days for AKITA.

Although the heavy oil drilling market, like other aspects of the drilling market, is cyclical in respect of overall activity levels, AKITA anticipates additional demand for pad rigs and is evaluating opportunities in order to expand its scope of operations in this market sector.



AKITA has seven
“arctic class”
specialty rigs that
are capable of
working under the
harshest weather
conditions.



Northern Operations

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

In the fourth quarter of 2006, AKITA deployed two additional "arctic class" specialty drilling rigs to Alaska to increase its total penetration in that jurisdiction to three rigs. Unlike rigs operated by AKITA in Canada, Doyon Drilling Inc. provides crews and in some cases management expertise to operate these rigs. AKITA recognizes the potential opportunity in this region and remains open to the possibility of expanding this business relationship.

AKITA has a total of seven "arctic class" rigs in its fleet, including the three rigs located in Alaska. In 2006, a total of three wells were drilled in Northern Canada compared to ten wells in 2005. Activity levels in Canada's North have not been sufficient to justify retaining all of the special rigs in that region in either 2005 or 2006. Consequently, five "arctic class" rigs have been deployed either to Southern Canada or to Alaska in order to augment conventional drilling opportunities in the Western Canadian Sedimentary Basin or exploration activities in Alaska.

Management believes that the current activity level in Northern Canadian drilling constitutes a temporary pause in customer plans, rather than a longer-term down trend for a potentially significant market for the Company. Mackenzie Valley Pipeline hearings are currently underway. Should these hearings ultimately result in construction of a pipeline, it would provide a strong stimulus to increase Northern drilling activity. AKITA has been working diligently with its customers for several years to ensure that the Company will be able to continue to meet the evolving needs of its customers in the North.

AKITA's marketing program emphasizes the continuous development of long-term relationships with a core base of customers that maintain ongoing drilling programs through all phases of the economic cycle.





Conventional Natural Gas & Oil

As a result of continuing oil production decline throughout much of the Western Canadian Sedimentary Basin, natural gas exploration and development continued to dominate the industry in 2006. Although the relative ratio of gas wells to oil wells marginally declined, there were still nearly three gas wells drilled in Western Canada for every oil well completed in 2006. 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, the Northwest Territories and the Yukon Territory.

Within the Western Canadian Sedimentary Basin and Canada's northern territories, AKITA operates a well-maintained, diversified and efficient fleet of 36 drilling rigs. AKITA's 11 singles and 12 triples represent 64% of its Canadian drilling 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 ten new or rebuilt rigs in the past decade that have drilling capacities that are targeted to meet this demand. In addition, the Company has ensured that other rigs in its fleet are maintained in first class condition and include all necessary equipment to perform efficiently and competitively. For example, 11 of AKITA's 12 triples have top drives mounted on them in order to improve drilling efficiency.

AKITA maintains a balanced mix of rigs. Consequently, if a particular depth range is busier than other depth ranges, the Company is generally able to participate in that opportunity. In 2006, the most active depth range included medium capacity rigs, particularly those that were involved in pad drilling either for heavy oil or for natural gas.

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 crews receive specialized training to help ensure the safe operation of large equipment.



Safety & Environmental Performance

AKITA is strongly committed to the ongoing safety of its employees. Since inception, AKITA's annual safety performance has been better than industry averages. In 2006, the Company had a lost time accident frequency of 0.46 accidents per 200,000 hours worked compared to an accident rate of 1.27 for the industry (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors) and an accident rate of 0.69 by AKITA in 2005. 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 a safe working environment. Regularly scheduled safety meetings and an ongoing commitment to training, both on-the-job and through related courses, form the basic cornerstones of this understanding.

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 applicable environmental regulations, to ensure responsible management of environmental issues. AKITA's 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 consolidated financial position, consolidated funds flows and consolidated results of operations for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or "the Company") for the years ended December 31, 2006 and 2005. AKITA Drilling Inc., a wholly owned subsidiary, commenced operations on December 6, 2005 in Alaska. The information included in this MD&A is intended to assist readers in analyzing the financial affairs of the Company. In addition to the information in this section, AKITA's audited financial statements for 2006 and 2005, including the notes thereto, found on pages 36 to 44, provide information on the Company's financial position, funds flows and results of its operations. The information in this MD&A was approved by AKITA's board of directors on March 19, 2007 and incorporates all relevant considerations to that date. All amounts are reported in Canadian dollars.

Revenue and Operating Maintenance Expenses

\$Million	2006	2005	Change	% Change
Revenue	174.5	162.1	12.4	8%
Operating and Maintenance Expenses	100.0	92.6	7.4	8%

Revenue increased to \$174,543,000 in 2006 from \$162,110,000 in 2005 as a result of higher day rates in the drilling sector. Strong rig demand in the first half of 2006 was offset by weaker utilization rates in the second half of the year. In addition to an increase in total revenue, revenue per operating day increased to \$22,046 during 2006 from \$20,233 per operating day in 2005 particularly as a result of stronger market conditions early in the year. Operating and maintenance costs vary directly with revenue and amounted to \$99,970,000 or \$12,627 per operating day during 2006 compared with \$92,576,000 or \$11,555 per operating day for the prior year.

The Company's operations are within the contract drilling and well servicing segment and are conducted in Western Canada and the Northwest Territories and Yukon Territory and, since December, 2005, Alaska.

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 99% of all revenue generated in 2006 (2005 – 97%). All contracts being performed at the year-end dates of December 31, 2006 and December 31, 2005 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, 2006, AKITA had 36 drilling rigs under management in Canada (33.575 rigs net). In addition, the Company had a 50% interest in three drilling rigs in Alaska. Consequently, at December 31, 2006, AKITA's drilling rig fleet stood at 39 rigs (35.075 rigs net), one more drilling rig than at the end of 2005 (0.5 of a rig net). In addition to the drilling rigs that were operational at that date, AKITA had three drilling rigs under construction at the end of 2006. One of these rigs commenced operations

at the start of 2007, while the other two drilling rigs are anticipated to commence operations during the second quarter of 2007. The Company also has three well servicing rigs (1.5 rigs net) under management. AKITA provided drilling services to 75 customers in 2006 (2005 - 64 customers), including three customers that each provided more than 10% of AKITA's revenue for the year (2005 – two customers).

Depreciation Expense

\$Million	2006	2005	Change	% Change
Depreciation Expense	14.2	12.7	1.5	12%

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 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 were newly constructed and are subject to fewer moves than the smaller sized drilling rigs in AKITA's fleet. The increase in depreciation expense to \$14,211,000 during 2006, from \$12,691,000 during 2005, was mostly attributable to the higher average cost base of AKITA's rigs due both to the addition of new rigs and the upgrading of older ones. 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. Drilling rig depreciation accounted for 74% of total depreciation expense in 2006 (2005 – 74%).

Selling and Administrative Expenses

\$Million	2006	2005	Change	% Change
Selling and Administrative Expenses	15.2	14.1	1.1	8%

Selling and administrative expenses were 8.7% of total revenue in 2006, the same percentage of total revenue as in 2005. The single largest component was salaries and benefits, which accounted for 62% of these expenses (64% in 2005).

Other Income (Expenses)

\$Million	2006	2005	Change	% Change
Interest on Long-term Debt	0.0	(0.1)	0.1	100%
Interest Income	1.9	1.2	0.7	58%
Gain on Sale	1.0	1.0	0.0	0%
Other Income	2.9	2.1	0.8	42%

The Company had no interest on long-term debt in 2006 compared to \$138,000 in 2005 as a result of the elimination of long-term debt in 2005. Cash balances held which are surplus to daily operating requirements have increased to \$49.9 million at December 31, 2006 and have resulted in AKITA generating

\$1,937,000 in interest income in 2006 compared to \$1,235,000 in 2005. Therefore, on a “net interest basis” (i.e. interest income less interest expense) AKITA generated net interest income of \$1,937,000 in 2006 compared to a net interest income of \$1,097,000 in the previous year. Gain on sale of joint venture interests in rigs and other assets totalled \$1,017,000 in 2006 compared to \$970,000 in the previous year. The Company recorded an unrealized loss from foreign currency translation of \$40,000 from its Alaskan operation in 2006 (2005 - Nil).

Income Tax Expense

\$Million	2006	2005	Change	% Change
Current Tax	14.6	14.4	0.2	1%
Future Tax	(0.2)	1.1	(1.3)	(118%)
Total Income Taxes	14.4	15.5	(1.1)	(7%)

The Company records income taxes using the liability method, thereby recording future income taxes based upon the differences between the financial reporting and income tax bases of assets and liabilities measured using tax rates that are substantively enacted to be in effect when the differences are expected to reverse. Total income tax expense decreased to \$14,374,000 in 2006 from \$15,506,000 in 2005. Current income tax expense increased slightly as increased operating income more than offset deductions from higher capital spending. Future income tax expense declined mostly due to announcements of rate reductions by federal, provincial and territorial tax authorities, resulting in the recording of \$1,800,000 in future income tax reductions which will become effective over the next few years, including \$225,000 that will become effective in 2007 and \$1,575,000 that will become effective in 2008 and beyond.

Net Earnings and Funds Flow

\$Million	2006	2005	Change	% Change
Net Earnings	33.8	29.3	4.5	15%
Funds Flow From Operations	47.2	42.4	4.8	11%

Net earnings increased to \$33,755,000 or \$1.83 per Class A Non-Voting Share and Class B Common Share (diluted - \$1.81) for 2006 from \$29,264,000 or \$1.57 per share (diluted - \$1.56) in 2005. Funds flow from operations increased to \$47,199,000 in 2006 from \$42,421,000 in 2005. Increased dayrates accounted for both the increase in earnings and funds flow.

Non-GAAP Measure

Funds flow from operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining funds 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 funds 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.

Earnings per Share

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting Shares 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 effect of outstanding stock options is included in the weighted average number of shares. Proceeds that would have been received on exercise of stock options 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.

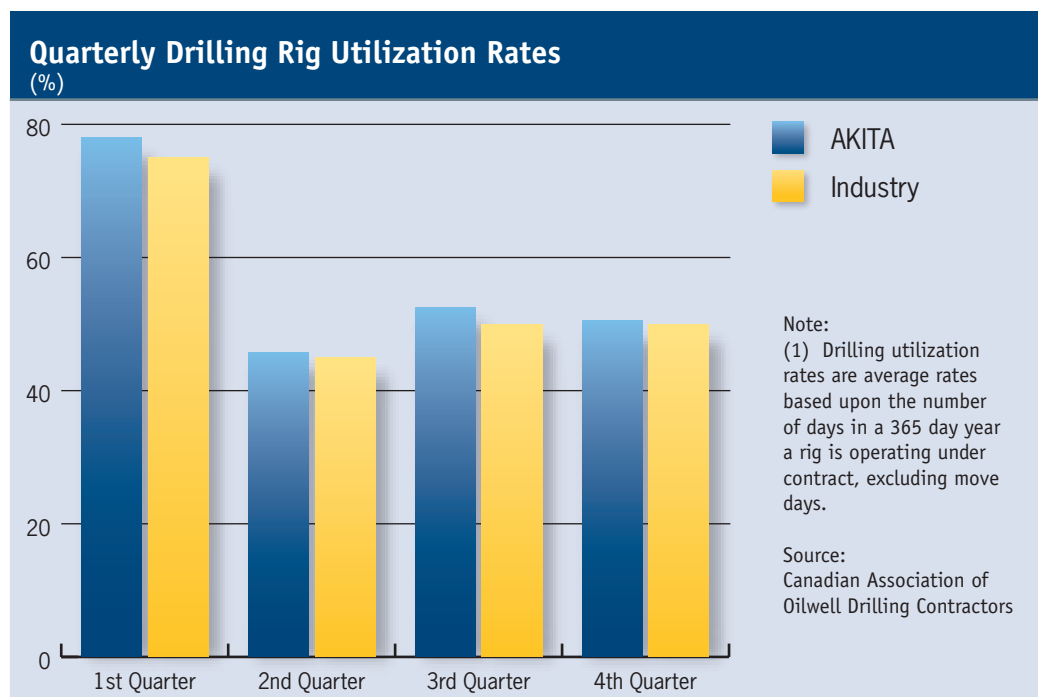
Fleet and Utilization

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 2006, AKITA's utilization rate was 56.6%, which was 2.7 percentage points lower than the previous year and 1.5 percentage points higher than the 2006 industry average. A general drilling industry slowdown that coincided with a general reduction in natural gas prices had an adverse effect on rig utilization in the second half of the year.

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 some cases, AKITA receives standby revenue to help offset the higher amount of down-time involved in operating in Northern Canada and Alaska. During 2005, the Company relocated two rigs from the Northwest Territories into Alberta to capitalize on the strong market conditions in Alberta and British Columbia. Conversely, in 2006, AKITA relocated one drilling rig from Alberta to Alaska as a result of market conditions.

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2006, AKITA had ten rigs with contracts that extend to December 31, 2007 or beyond. Of these contracts, one expires at the end of 2007, while four are anticipated to expire in 2008, two in 2009 and the remaining three in 2010.

The following graph illustrates AKITA's 2006 drilling utilization rates compared to the industry average:



The 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 drilling and well servicing season ends with “spring breakup”, 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 higher than the industry average due to a later spring break-up in northern remote locations. However, many of AKITA's drilling rigs located in these regions are also subject to a much shorter drilling season. This geographic positioning of rigs also had a corresponding negative effect on fourth quarter utilization, as northern rig locations generally did not become available as early as rig locations in southern regions.

In addition to traditional seasonal impacts, the business of AKITA is affected in two important ways as a result of warmer than normal temperatures. First, increases in overall temperatures would have the effect of shortening the winter drilling season, especially in remote and northern locations. The most dramatic impacts of warmer than normal temperatures on the Company have been noted in Northern Canada, where the typical drilling season has shortened. As a result, it has been common for the Company to work with its customers and suppliers in regions such as the Mackenzie Delta, to locate certain key pieces of equipment in “staging areas” during the summer to reduce the overall winter moving distances. Another impact of warmer than normal temperatures on AKITA is related to a reduced demand for natural gas for heating. To the extent that this impacts the commodity price for natural gas, AKITA's customers might reduce natural gas drilling activity, which in turn, might reduce the demand for AKITA's services.

Competition in the Canadian drilling and well servicing industry is affected by the overall size of the drilling and well servicing fleets, in addition to the level of demand by customers of those fleets. At December 31, 2006 there were 844 drilling rigs registered with the CAODC (December 31, 2005 – 774). There were also 1,007 well servicing rigs registered with the CAODC on December 31, 2006 (December 31, 2005 – 1,033). AKITA's drilling and well servicing fleets represented 4.6% and 0.3% of the total Canadian drilling and well servicing fleets, respectively, at December 31, 2006 (December 31, 2005 – 4.8% and 0.3%, respectively).

Changes in the level of operations have a corresponding impact on financial results. The following table shows the quarterly impact on AKITA's operations for 2006 and 2005:

Three Months Ended (Dollars in thousands, except per share • unaudited)				
	Mar. 31	June 30	Sept. 30	Dec.. 31
2006				
Revenue	61,195	32,929	38,856	41,563
Net Earnings	11,002	7,548	6,850	8,355
Basic Earnings per share	0.59	0.41	0.37	0.46
Diluted Earnings per share	0.59	0.40	0.37	0.45
Funds flow from operations	16,519	8,758	10,389	11,533
2005				
Revenue	49,889	24,840	40,740	46,641
Net Earnings	8,685	3,895	7,108	9,576
Basic Earnings per share	0.47	0.21	0.38	0.51
Diluted Earnings per share	0.46	0.21	0.38	0.51
Funds flow from operations	13,531	5,984	10,319	12,587

During the fourth quarter of 2006, rig activity for the Company included 1,814 operating days compared to 2,219 operating days during the corresponding period in 2005. Weaker demand for drilling rigs targeting natural gas in the fourth quarter of 2006 was directly responsible for the achievement of fewer operating days vis-à-vis the corresponding period in 2005. Although revenue rates equated to \$22,912 per operating day in the fourth quarter of 2006 versus \$21,019 in the fourth quarter of 2005, the impact of higher rates in the fourth quarter of 2006 was not sufficient to offset the lower activity levels when compared to the corresponding period in 2005. Fourth quarter results also benefited from a reduction of expenses related to GST due to a recovery of input tax credits. Consequently, earnings, earnings per share and funds flow from operations were all lower than for the fourth quarter of 2005. Overall liquidity decreased at December 31, 2006 compared to the corresponding 2005 year-end date by \$2,818,000 as measured in terms of overall working capital. Year over year working capital decreased as a result of lower levels of accounts receivable (due to lower activity) and was also affected by the overall level of capital expenditures during the year. Even though year-end working capital balances were lower in 2006 than for the year-end date in 2005, the 2006 year-end cash balance was higher than the corresponding balance at the end of 2005 (2006 - \$49,927,000; 2005 - \$42,685,000).

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

Three Year Summary (Dollars in thousands, except per share)	2006	2005	2004
Revenue	174,543	162,110	135,747
Net Earnings	33,755	29,264	20,875
Basic Earnings per share	1.83	1.57	1.15
Diluted Earnings per share	1.81	1.56	1.12
Dividends per Class A Non-Voting and Class B Common Share	0.24	0.225	0.20
Funds flow from operations	47,199	42,421	33,947
Working capital	56,681	59,499	40,414
Long-term debt	—	—	3,973
Other long-term liabilities	17,683	17,302	15,963
Shareholders' equity	172,873	148,366	124,926
Total Assets	222,237	199,852	162,957

Liquidity and Capital Resources

AKITA has typically generated sufficient funds 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 and occasionally in years when new rigs are added to the fleet, the Company typically restricts capital expenditures to less than 50% of funds flow from operations. In 2006, AKITA's net capital expenditure program of \$40,655,000 represented 86% of funds flow from operations and included the addition of a 50% interest in one new rig plus costs related to the construction of three additional rigs, in addition to other routine capital expenditures.

At December 31, 2006, AKITA had \$56,681,000 in working capital including \$49,927,000 in cash, compared to \$59,499,000 in working capital, including \$42,685,000 in cash, for the previous year. In 2006, a record amount of funds were generated from operations (\$47,199,000) due to strong dayrates. Cash was also generated through proceeds on sales of joint venture rigs and other assets (\$9,043,000), proceeds received from the exercise of stock options (\$205,000), and a reduction in investments (\$55,000), as well as a decrease in non-cash working capital due to reduced activity levels, particularly at year-end (\$14,295,000). During the same period, cash was used for capital expenditures for the year (\$49,698,000), repayment of short-term bank indebtedness (\$4,400,000), payment of dividends (\$4,448,000) and repurchasing share capital (\$5,009,000).

AKITA's bank operating line is unchanged at \$10,000,000 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. At December 31, 2006, no loan was outstanding (2005 - \$4,400,000).

In 2002, AKITA established a renewable borrowing facility of up to \$20 million at prime plus ½%, pledging certain assets, promissory notes and an assignment of insurance proceeds on certain assets as

security for the existing term facility. The Company has not drawn upon this facility during the year. In November 2005, the rate on this facility was renegotiated to prime.

During 2006, the Company repurchased 257,400 Class A Non-Voting Shares at an average price of \$19.46 pursuant to its Normal Course Issuer Bid.

In 2004, AKITA relocated and entered into a lease for its head office. In 2006, the cost for this lease was \$424,000. 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
Operating Leases	1,272	424	848	—	—
Purchase obligations	23,092	22,242	680	170	—
Pension obligations	3,367	15	Note	Note	Note
Total contractual obligations	27,731	22,681	1,528	170	—

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost from year one to three ranges from \$45,000 to \$826,000, from year four to five ranges from \$30,000 to \$618,000 with the balance being due after five years in any event.

Financial Instruments

The Company's financial assets and liabilities include cash, accounts receivable, bank indebtedness and accounts payable. 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 recognize bad debts.

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 \$3,551,000 and relate to the purchase of a drilling camp (\$2,677,000), wellsite trailers (\$869,000) and other

miscellaneous purchases (\$5,000). Operating purchases totalled \$590,000 and included sponsorship and advertising (\$316,000), shared employee services (\$169,000) and other miscellaneous purchases (\$105,000). In 2004 and in 2006, the Company entered into multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2006, the remaining commitment was \$1,492,000. Costs incurred related to this contract during 2006 were \$316,000 (2005 - \$158,000). Costs and related services are consistent with parties dealing at arms length.

Class A and Class B Share Dividends

Per Share	2006	2005	Change	% Change
Dividends per share	0.24	0.225	0.015	7%

During 2006, AKITA paid dividends totalling \$0.24 per share (\$4,448,000) on its Class A Non-Voting Shares and Class B Common Shares, up from \$0.225 per share (\$4,182,000) for 2005. 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 February 26, 2007 with a dividend rate of \$0.07 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, 2004	16,991,458	22,303	1,654,284	1,366	18,645,742	23,669
Shares repurchased	(101,800)	(129)	—	—	(101,800)	(129)
December 31, 2005	16,889,658	22,174	1,654,284	1,366	18,543,942	23,540
Stock options exercised	36,000	205	—	—	36,000	205
Shares repurchased	(257,400)	(305)	—	—	(257,400)	(305)
December 31, 2006	16,668,258	22,074	1,654,284	1,366	18,322,542	23,440
Exercisable options at Dec. 31, 2006	192,500					
Unexercisable options at Dec. 31, 2006	258,500					

At March 19, 2007, the Company had 16,635,758 Class A Non-Voting Shares and 1,654,284 Class B Common shares outstanding. At that date, there were also 411,000 stock options outstanding, of which 164,800 were exercisable.

On June 8, 2005, the Company implemented a two-for-one share split of its issued and outstanding Class A Non-Voting Shares and Class B Common Shares that was approved by the shareowners at the

May 26, 2005 Annual General Meeting. All references to net income per share, diluted net income per share, weighted average number of Class A Non-Voting Shares and Class B Common Shares outstanding, Class A Non-Voting Shares and Class B Common Shares issued and outstanding and options granted and exercised have been retroactively restated to reflect the Company's two-for-one split.

The Company did not adopt any new accounting standards or accounting policies in 2006 that had a material impact on the Company.

In January 2005, the CICA published three new accounting sections to the CICA Handbook: Section 1530, Section 3855 and Section 3861. Section 1530 "Comprehensive Income" addresses fair value accounting and reporting and display standards for comprehensive income. Section 3855 "Financial Instruments – Recognition and Measurement" addresses when financial instruments should be measured and how measurement should occur. Section 3861 "Financial Instruments – Disclosure and Presentation" provides standards for how financial instruments should be classified on the financial statements as well as related disclosure requirements. All of these new standards will be adopted by the Company on a prospective basis in accordance with the recommendations of the CICA for the period commencing January 1, 2007. The Company is presently evaluating the impact of these new standards and does not believe that the adoption of these recommendations will have a significant impact on the Company's financial statements.

Capital Assets

Capital expenditures totalled \$49,698,000 in 2006. The single largest capital expenditure was a new 3,350 metre rig that was completed for use in Alaska in the fourth quarter of 2006 at a cost of \$15,069,000. Additional capital expenditures relate to the construction of three other rigs (\$14,552,000), rig equipment for existing rigs (\$6,988,000), land and improvements (\$5,136,000), drill pipe and drill collars (\$3,754,000), top drives (\$2,762,000) and vehicles and other equipment (\$1,437,000). Capital expenditures for 2005 totalled \$25,325,000.

During 2006, AKITA also sold a 50% interest in the new 3,350 metre rig for use in Alaska to one of its joint venture partners. Proceeds from the sale were \$7,475,000. In addition, AKITA had \$551,000 in proceeds from sales of rigs and other assets.

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 drilling rig fleet was \$3.5 million per net drilling rig and \$1.0 million per net 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 funds flows) will be achieved over remaining service lives. No adjustments were made in 2006 or 2005 to carrying values as a result of this review.

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. AKITA's Alaskan operations are also conducted through a joint venture. 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.

Since 2000, AKITA has constructed six drilling rigs under joint ventures. As part of the agreements to construct each rig, term contracts lasting four or more years each were entered into with customers. Three of the initial term contracts expired in 2005 and one expired in 2006. The remaining two initial term contracts expire in 2009 and 2010.

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

(Dollars in thousands)	2006	2005
Current Assets	5,281	4,891
Capital assets, net of depreciation	50,581	48,078
Current liabilities	2,135	1,181
Revenue	29,828	29,101
Expenses	24,400	23,252
Net earnings	5,428	5,849
Funds flow from operating activities	9,097	9,893
Funds flow from financing activities	—	(3,973)
Funds flow from investing activities	(7,594)	(4,379)

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 servicing 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 \$3,367,000 at December 31, 2006 (\$3,102,000 - 2005). 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 liabilities 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 2006, key assumptions relate to the use of a 5% 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.

In addition to the management of strategic risks included above, 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, reporting and compliance risks.

AKITA manages its risks in these areas by:

- developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures
- maintaining a low cost structure for the Company, including limited use of financial leverage
- obtaining multi-year rig contracts whenever possible, but particularly when associated with the construction of new rigs
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program
- constantly upgrading its rig fleet
- 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
- maintaining effective systems of internal control to safeguard assets and ensure timely and accurate reporting of financial results
- maintaining comprehensive insurance policies with respect to its operations
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures

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 and Alaska is an important aspect of AKITA's operations. Special challenges are present in order to operate effectively in these areas. 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.

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 appear to be less positive in the short-term, compared to the record results generated in 2006, especially as a result of currently weaker commodity prices for both oil and natural gas than existed for most of last year. The Canadian Association of Oilwell Drilling Contractors (CAODC) currently forecasts drilling approximately 19,000 wells in 2007 compared to 22,127 wells in 2006. Year-to-date activity levels for 2007 are indicative that activity levels for 2007 may be lower than CAODC's forecast. It currently appears that a turnaround to a more active market will not be forthcoming until some of the record levels of natural gas in storage facilities in North America are consumed.

In 2000 and 2001, the Company built five rigs that have been working under long-term contracts. Three of these contracts expired in 2004 or 2005, while two additional contracts expired in 2006. One of the expired contracts 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 all of 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.

During 2005 and 2006, the Company entered into two multi-year contracts through one of its joint ventures with large corporations for which the Company constructed two drilling rigs to be used on the North Slope of Alaska.

The Company is currently reviewing its strategic alternatives regarding its well servicing business.

Longer term, the Company is well positioned in terms of drilling potential for shallow and deep natural gas, heavy and conventional oil and to take advantage of any increasing activity in Northern Canada and Alaska. AKITA's strategy over the past years has been to develop equipment and key relationships to effectively penetrate these specific market opportunities.

AKITA is continuing to pursue opportunities, particularly in its focus areas of the North, heavy oil and coal bed methane drilling.

Disclosure Controls and Internal Controls over Financial Reporting

As of December 31, 2006, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer.

Disclosure Controls are procedures designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, does not expect that the Company's Disclosure Controls will prevent or detect all errors or all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error within the Company, if any, have been detected.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Company's Disclosure Controls are effective in ensuring that material information relating to the Company is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

As of December 31, 2006, management of the Company is responsible for the design of internal control over financial reporting ("Internal Control Over Financial Reporting"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. The Company's Internal Control Over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal Control Over Financial Reporting, no matter how well designed, has inherent limitations. Therefore, Internal Control Over Financial Reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There were no changes in the Company's Internal Controls Over Financial Reporting that have occurred during the year including the three months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control Over Financial Reporting.

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 19, 2007. Copies of this information including additional copies of the Annual Report for the year ended December 31, 2006 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 900, 311 – 6th Avenue S.W., Calgary, Alberta, T2P 3H2 or at www.sedar.com.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to AKITA contained in this Annual Report are the responsibility of management and have been approved by the board of directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated 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, management made 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 including estimates related to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined pension liability and assumptions around future income tax calculations. Financial information throughout this Annual Report is consistent with the consolidated financial statements.

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. This system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, Internal Control – Integrated Framework. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in Canada. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated 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 independent directors as defined in multilateral instrument 52-110 – Audit Committees ("MI 52-110"), and one director who is exempt from the independence requirements of MI 52-110, 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
Chief Executive Officer



Murray J. Roth
Vice President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of AKITA Drilling Ltd.

We have audited the consolidated balance sheets of AKITA Drilling Ltd. as at December 31, 2006 and 2005 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Chartered Accountants
Calgary, Alberta

March 19, 2007

Consolidated Balance Sheets

December 31 (Dollars in thousands)		2006	2005
Assets			
Current Assets			
Cash		\$ 49,927	\$ 42,685
Accounts Receivable		38,529	50,900
Other		206	98
		88,662	93,683
Investments		—	55
Capital Assets	Note 2	133,575	106,114
		\$ 222,237	\$ 199,852
Liabilities			
Current Liabilities			
Bank indebtedness	Note 3	\$ —	\$ 4,400
Accounts payable and accrued liabilities		24,772	22,803
Dividends payable		1,285	1,120
Income taxes payable		5,924	5,861
		31,981	34,184
Future income taxes	Note 9	14,016	14,200
Pension liability	Note 5	3,367	3,102
Class A and Class B Shareholder's Equity			
Class A and Class B shares	Note 6	23,440	23,540
Contributed surplus		652	483
Retained earnings		148,781	124,343
		172,873	148,366
		\$ 222,237	\$ 199,852

Approved by the Board



Director



Director

Consolidated Statements of Earnings and Retained Earnings

Year Ended December 31 (Dollars in thousands, except per share)		2006	2005
Revenue		\$ 174,543	\$ 162,110
Costs and Expenses			
Operating and Maintenance		99,970	92,576
Depreciation		14,211	12,691
Selling and administrative		15,187	14,140
		129,368	119,407
Operating Income		45,175	42,703
Other income (expense)			
Interest on long-term debt		—	(138)
Interest income		1,937	1,235
Gain on sale of joint venture interests in rigs and other assets		1,017	970
		2,954	2,067
Earnings before income taxes		48,129	44,770
Income Taxes			
Current		14,558	14,419
Future		(184)	1,087
	Note 9	14,374	15,506
Net Earnings		33,755	29,264
Retained earnings, beginning of year		124,343	100,871
Dividends declared		(4,613)	(4,182)
Adjustment on repurchase and cancellation of share capital	Note 6	(4,704)	(1,610)
Retained Earnings, end of year		\$ 148,781	\$ 124,343
Earnings per Class A and Class B share	Note 7		
Basic		\$ 1.83	\$ 1.57
Diluted		\$ 1.81	\$ 1.56

Consolidated Statements of Cash Flow

Year ended December 31 (Dollars in thousands)	2006	2005
Operating activities		
Net Earnings	\$ 33,755	\$ 29,264
Non-cash items included in earnings		
Depreciation	14,211	12,691
Future income taxes	(184)	1,087
Expense for defined benefit pension plan	265	252
Stock options charged to expense	169	97
Gain on sale of joint venture interests in rigs and other assets	(1,017)	(970)
Funds flow from operations	47,199	42,421
Change in non-cash working capital	13,953	(4,931)
	61,152	37,490
Investing activities		
Capital Expenditures	(49,698)	(25,325)
Proceeds on sales of joint venture interests in rigs and other assets	9,043	7,910
Reduction in investments	55	—
Change in non-cash working capital	514	714
	(40,086)	(16,701)
Financing activities		
Increase (decrease) in bank indebtedness	(4,400)	4,400
Dividends paid	(4,448)	(4,182)
Proceeds received on exercise of stock options	205	—
Repurchase of share capital	(5,009)	(1,739)
Repayment on long-term debt	—	(3,973)
Change in non-cash working capital	(172)	(62)
	(13,824)	(5,556)
Increase in Cash	7,242	15,233
Cash position, beginning of year	42,685	27,452
Cash position, end of year	\$ 49,927	\$ 42,685
Interest paid during the year	\$ 72	\$ 110
Income taxes paid during the year	\$ 14,495	\$ 10,083

Notes to Consolidated Financial Statements

December 31, 2006

1. Summary of Significant Accounting Policies

Financial statement presentation

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of AKITA Drilling Ltd., its subsidiaries and a proportionate share of its joint venture investments (consisting of drilling and well service rigs).

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. Drilling rigs are subject to certain minimum annual depreciation. 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 8. The Company records compensation expense and contributed surplus, based on the estimated fair value, over the vesting period for stock options granted in 2003 and subsequent years. Any consideration paid by employees on exercise of stock options is credited to share capital along with the related contributed surplus. No compensation expense has been recorded for awards granted prior to 2003. During 2006, the Canadian Institute of Chartered Accountants issued EIC 162 "Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date" which was adopted by the Company but had no material effect on the financial statements for the Company.

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 enacted or 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 incurred.

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.

All references to net income per share, diluted net income per share, weighted average number of Class A Non-Voting and Class B Common shares outstanding, Class A Non-Voting and Class B Common shares issued and outstanding and options granted and exercised have been retroactively restated to reflect the Company's two-for-one share split implemented on June 8, 2005.

Joint Ventures

The Company conducts certain operations through joint ventures. Ownership in and results of operations from these joint ventures are recorded under the proportionate consolidation method whereby only the Company's share of the assets, liabilities, revenue and expenses are recognized.

Cash

Cash comprises cash and highly liquid short-term investments.

Financial Instruments and Credit Risk

The Company's financial assets and liabilities include cash, accounts receivable, bank indebtedness and accounts payable. 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 recognize potential bad debts.

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 as well as the reported amounts for revenue and expenses during the year. Significant estimates used in the preparation of these financial statements include estimates relating to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined pension liability and assumptions around future income tax calculations.

2. Capital Assets

(Dollars in thousands)	2006		2005	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Drilling and well service rigs and related equipment	\$212,645	\$87,071	\$177,455	\$73,919
Other	10,695	2,694	4,993	2,415
	\$223,340	\$89,765	\$182,448	\$76,334
Net Book Value	\$133,575		\$106,114	

3. Credit Line

The Company has a credit line totalling the lesser of \$10,000,000 or 80% of accounts receivable at bank prime secured by a general assignment of accounts receivable. This line was not drawn upon at December 31, 2006. \$4,400,000 was drawn upon at December 31, 2005.

4. Long Term Debt

The Company has a renewable borrowing facility of up to \$20,000,000 bearing interest at bank prime. To date, the Company has not drawn upon this facility. Security for this facility consists of a general security agreement providing for a fixed charge on certain assets, promissory notes and an assignment of insurance proceeds on certain capital assets.

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, is non-contributory and unfunded.

No current service cost was incurred in either 2006 or 2005.

(Dollars in thousands)	2006	2005
Accrued benefit obligation as at January 1	\$3,102	\$2,850
Interest cost	205	204
Benefits paid	(11)	—
Actuarial loss	71	48
Accrued benefit obligation as at December 31	3,367	3,102
Unamortized net losses	484	744
Unamortized transitional obligation	232	263
Actuarial present value of defined benefit obligation	\$4,083	\$4,109

Assumptions

(per cent)	2006	2005
Discount Rate	5.0	5.0
Rate of compensation growth	3.0	3.0

The Company obtains an annual actuarial valuation subsequent to each year-end from an independent actuary. The most recent evaluation was dated January 19, 2007 and was utilized in measuring the December 31, 2006 and 2005 year-end balances as well as related activities during each of these respective years.

During the year, the Company charged \$3,890,000 to expense in respect of its defined contribution pension plan (2005 - \$3,501,000) and \$265,000 to expense in respect of its defined benefit pension plan (2005 - \$252,000).

6. 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, 2004	16,991,458	\$22,303	1,654,284	\$1,366	18,645,742	\$23,669
Shares repurchased	(101,800)	(129)	—	—	(101,800)	(129)
December 31, 2005	16,889,658	\$22,174	1,654,284	\$1,366	18,543,942	\$23,540
Stock options exercised	36,000	205	—	—	36,000	205
Shares repurchased	(257,400)	(305)	—	—	(257,400)	(305)
December 31, 2006	16,668,258	\$22,074	1,654,284	\$1,366	18,322,542	\$23,440

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 June 6, 2005, the Company commenced a normal course issuer bid for the purchase of up to 3% of the outstanding Class A Non-Voting shares. The offer expired on June 5, 2006. In 2005, 101,800 shares were repurchased and cancelled under this bid at a cost of \$1,739,000 of which \$129,000 was charged to share capital and \$1,610,000 to retained earnings. On June 9, 2006, the Company commenced a new normal course issuer bid for the purchase of up to 3% of the outstanding Class A Non-Voting shares. This offer will expire on June 8, 2007. In 2006, 257,400 shares were repurchased and cancelled under the aforementioned bids at a cost of \$5,009,000 of which \$305,000 was charged to share capital and \$4,704,000 to retained earnings.

7. Earnings per Share

	2006	2005
Net earnings (Dollars in thousands)	\$ 33,755	\$ 29,264
Weighted average outstanding shares	18,491,237	18,591,334
Incremental shares	109,095	127,250
Basic earnings per share (\$)	\$ 1.83	\$ 1.57
Diluted earnings per share (\$)	\$ 1.81	\$ 1.56

8. Stock Based Compensation Plans

At December 31, 2006, the Company had two stock-based compensation plans, which are described below.

The Company's Corporate Governance, Nomination, Compensation and Succession Committee, subject to the approval of the Company's board of directors, 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 1,700,000 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 (which range from three to eight years) 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, 2006 and 2005, and changes during the years ended on those dates is presented below:

	2006		2005	
	Shares	Weighted Average Exercise Price (\$)	Shares	Weighted Average Exercise Price (\$)
Outstanding at beginning of year (options and SARs)	268,000	7.44	262,000	7.30
Granted	229,000	22.44	6,000	13.49
Exercised	(36,000)	5.54	—	—
Expired	(10,000)	9.94	—	—
Outstanding at end of year (options and SARs)	451,000	13.85	268,000	7.44
Options exercisable at year-end	152,500	15.25	148,200	6.80
SARs exercisable at year-end	40,000	4.49	40,000	4.49

The following table summarizes information about stock based compensation plans at December 31, 2006:

Nature of Compensation	Exercise Price (\$)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
SARs	4.490	40,000	0.0	40,000
Options	3.695	4,000	2.1	4,000
Options	4.295	4,000	3.0	4,000
Options	5.400	58,000	4.0	58,000
Options	8.405	2,000	5.6	2,000
Options	9.940	108,000	6.2	70,900
Options	13.490	6,000	8.0	4,000
Options	22.250	44,000	9.4	9,600
Options	22.480	185,000	9.6	—

The liability related to share appreciation rights was reduced for the year ended December 31, 2006, resulting in a recovery of \$285,000 (2005 – expense of \$378,000), and was included in selling and administrative expense.

During 2006, the Company recorded compensation expense and a corresponding increase to contributed surplus of \$169,000 for options granted since 2003 (2005 - \$97,000). Compensation expense was determined using the Black-Scholes Model based on the following assumptions:

Risk free interest rate	4.34%
Expected volatility	24%
Dividends yield rate	1.15%
Weighted average expected life of options	7 years

9. Income Taxes

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

(Dollars in thousands)	2006	2005
Earnings before income taxes	\$48,129	\$44,770
Expected income tax at statutory rate of 33.33% (2005 - 34.29%)	16,039	15,352
Add (Deduct)		
Reduction in future income tax rates	(1,943)	(28)
Permanent difference	54	71
Large corporations tax and other	224	111
Income tax expense	\$14,374	\$15,506

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

(Dollars in thousands)	2006	2005
Capital assets	\$48,063	\$44,127
Employee pension and SAR Benefits	(3,853)	(3,890)
Other	3,094	1,264
	47,304	41,501
Expected future income tax rate	29.63%	34.22%
Future income taxes at expected tax rate	\$14,016	\$14,200

10. 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.

(Dollars in thousands)	2006	2005
Revenue	\$ 44	\$ 11
Purchases		
Capital	3,551	632
Operating	590	378
Year end accounts receivable	4	4
Year end accounts payable	14	13

11. New Accounting Standards not yet Adopted

In January 2005, the CICA published three new accounting sections to the CICA Handbook: Section 1530, Section 3855 and Section 3861. Section 1530 "Comprehensive Income" addresses fair value accounting and reporting and display standards for comprehensive income. Section 3855 "Financial Instruments – Recognition and Measurement" addresses when financial instruments should be measured and how measurement should occur. Section 3861 "Financial Instruments – Disclosure and Presentation" provides standards for how financial instruments should be classified on the financial statements as well as related disclosure requirements. All of these new standards will be adopted by the Company on a prospective basis in accordance with the recommendations of the CICA for the period commencing January 1, 2007. The Company has evaluated the impact of these new standards and the adoption of these recommendations will not have a significant impact on the Company's financial statements.

12. Joint Ventures

The following table summarizes the Company's share of assets, liabilities, revenues and expenses related to its joint venture operations:

(Dollars in thousands)	2006	2005
Current assets	\$5,281	\$4,891
Capital assets, net of accumulated depreciation	50,581	48,078
Current liabilities	2,135	1,181
Revenue	29,828	29,101
Expenses	24,400	23,252
Net earnings	5,428	5,849
Cash flow from operating activities	9,097	9,893
Cash flow from financing activities	—	(3,973)
Cash flow from investing activities	(7,594)	(4,379)

13. Significant Customers

During 2006, three customers (2005 – two customers) each provided more than 10% of the Company's total revenue. In management's assessment, the future viability of the Company is not dependent upon any of these major customers.

14. Commitments

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2006, the Company had 10 rigs with contracts that extend to December 31, 2007 or beyond. Of these contracts, one expires at the end of 2007, while four are anticipated to expire in 2008, two in 2009 and the remaining three in 2010.

During 2004 and 2006, the Company entered into two four-year contracts to provide sponsorship and advertising to a related company at a cost of \$1,492,000 including \$316,000 for 2006.

At December 31, 2006, the Company had commitments totalling \$21.6 million in respect of rigs under construction at that date (2005 - \$6.5 million).

The Company leases its office space at an annual cost of approximately \$424,000 per year. This lease expires on December 31, 2009.

15. Segmented Information

The Company operates in one business segment that includes providing oil and gas well drilling and well servicing for its customers. Commencing on December 6, 2005, the Company expanded its geographic span outside of Canada into Alaska. Comparative figures for 2005, therefore, represent partial year results. Results for the past two years, as stated in Canadian dollars, are as follows:

(Dollars in thousands)

	Domestic		Alaska		Consolidated	
	2006	2005	2006	2005	2006	2005
Revenue	168,740	161,825	5,803	285	174,543	162,110
Capital Assets at year-end	113,236	100,738	20,339	5,376	133,575	106,114

10 Year Financial Review

December 31, 2006

(Dollars in thousands, except per share)

	Annual Ranking	2006	2005	2004
Summary of Operations				
Revenue	1	\$ 174,543	\$ 162,110	\$ 135,747
Earnings before income taxes	1	\$ 48,129	\$ 44,770	\$ 32,121
Income taxes	2	\$ 14,374	\$ 15,506	\$ 11,246
Net earnings	1	\$ 33,755	\$ 29,264	\$ 20,875
As a percentage of average shareholder's equity	5	21.0%	21.4%	18.3%
Earnings per Class A and Class B shares	1	\$ 1.83	\$ 1.57	\$ 1.15
Funds flow from operations	1	\$ 47,199	\$ 42,421	\$ 33,947
As a percentage of average shareholder's equity	8	29.4%	31.0%	29.7%
Financial position at year end				
Working capital	2	\$ 56,681	\$ 59,499	\$ 40,414
Current ratio	5	2.77:1	2.74:1	2.83:1
Total assets	1	\$ 222,237	\$ 199,852	\$ 162,957
Shareholder's equity	1	\$ 172,873	\$ 148,366	\$ 124,926
per share	1	\$ 9.43	\$ 8.00	\$ 6.70
Other				
Capital expenditures (Net)	2	\$ 40,655	\$ 18,386	\$ 15,308
Depreciation	1	\$ 14,211	\$ 12,691	\$ 11,263
Dividends paid per share	1	\$ 0.24	\$ 0.225	\$ 0.20

2003	2002	2001	2000	1999	1998	1997
\$ 124,078	\$ 102,895	\$ 110,844	\$ 88,441	\$ 61,316	\$ 75,463	\$ 89,100
\$ 28,678	\$ 23,473	\$ 30,395	\$ 19,792	\$ 9,194	\$ 19,762	\$ 21,421
\$ 9,856	\$ 9,128	\$ 12,506	\$ 8,635	\$ 3,983	\$ 6,855	\$ 10,058
\$ 18,822	\$ 14,345	\$ 17,889	\$ 11,157	\$ 5,211	\$ 12,907	\$ 11,363
19.4%	16.7%	25.8%	18.0%	9.0%	24.0%	25.5%
\$ 1.04	\$ 0.79	\$ 0.99	\$ 0.62	\$ 0.28	\$ 0.68	\$ 0.60
\$ 30,426	\$ 27,459	\$ 26,959	\$ 17,110	\$ 10,894	\$17,914	\$ 15,467
31.3%	32.0%	38.9%	27.6%	18.5%	33.3%	34.7%
\$ 24,319	\$ 26,551	\$ 19,823	\$ 17,227	\$ 30,368	\$ 30,481	\$ 23,883
1.82:1	2.52:1	1.77:1	2.07:1	3.67:1	4.16:1	2.04:1
\$ 150,901	\$ 133,901	\$ 145,859	\$ 85,529	\$ 73,463	\$ 70,032	\$ 73,947
\$ 103,590	\$ 90,947	\$ 80,472	\$ 65,624	\$ 58,170	\$ 58,190	\$ 48,767
\$ 5.74	\$ 4.97	\$ 4.42	\$ 3.62	\$ 3.18	\$ 3.07	\$ 2.57
\$ 16,122	(\$ 2,061)	\$ 54,319	\$ 26,548	\$ 7,670	\$ 7,832	\$ 15,372
\$ 9,432	\$ 8,819	\$ 7,763	\$ 6,551	\$ 5,627	\$ 5,022	\$ 4,247
\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.14	\$ 0.12	\$ 0.10

Corporate Information

Directors

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

Loraine M. Charlton
Corporate Director
Calgary, Alberta

Arthur C. Eastly
Corporate Director
Calgary, Alberta

Linda A. Heathcott
President, Spruce Meadows,
President, Team Spruce Meadows Inc.
Chairman of the Board of the Company
Calgary, Alberta

John B. Hlavka
Chief Executive Officer of the Company
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.
Chairman, Spruce Meadows
Calgary, Alberta

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

Ronald D. Southern, C.C., C.B.E., B.Sc.,
LL.D.

Chairman, ATCO Ltd. and Canadian
Utilities Limited, Deputy Chairman of
the Board of the Company
Calgary, Alberta

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

Charles W. Wilson
Corporate Director
Evergreen, Colorado

Officers

John B. Hlavka
Chief Executive Officer

Fred O. Hensel
Vice President, Marketing for the
South

Lou C. Klaver, P. Eng.
Vice President, Engineering

Craig W. Kushner
Corporate Secretary and Human
Resources Administrator

John M. Pahl
Vice President, Marketing for the
North

Murray J. Roth
Vice President, Finance and Chief
Financial Officer

Karl A. Ruud
President and Chief Operating Officer

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Counsel

Bennett Jones LLP
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Auditors

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Calgary, Alberta

Registrar and Transfer Agent

CIBC Mellon Trust Company
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Share Symbol / TSX

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

Website

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