AKITA DRILLING LTD.

2011 Annual Report

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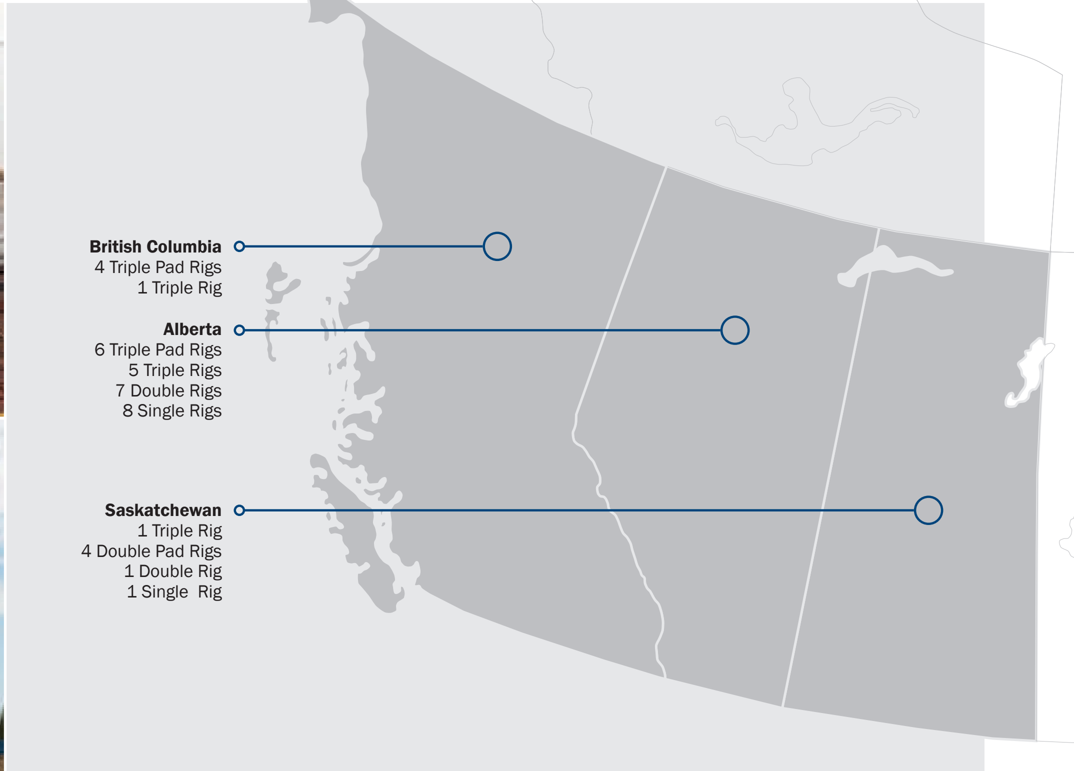
Forward-Looking Statements

From time to time, AKITA Drilling Ltd. ("AKITA" or the "Company") makes written and verbal forward-looking statements. 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. Forward-looking statements are typically identified with words such as "believe", "expect", "forecast", "anticipate", "intend", "estimate", "plan" and "project" and similar expressions of future or conditional events such as "will", "may", "should", "could" or "would".

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 crude 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.

Additional information about these and other factors can be found under the "Business Risks and Risk Management" section of the Management's Discussion and Analysis of this 2011 Annual Report for AKITA.



Building Shareholder Value

Corporate Profile

AKITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling operations throughout Western and Northern Canada and Quebec.

The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in pad and other purpose-built drilling rigs and is active in directional, horizontal and underbalanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs, at full operations, approximately 800 people. The Company has ownership in 38 drilling rigs in all depth ranges.

Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Monday May 7, 2012 at the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

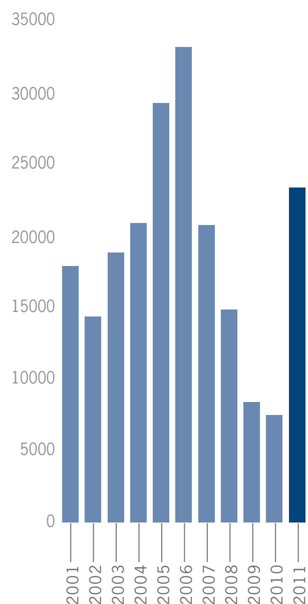
Operational Performance

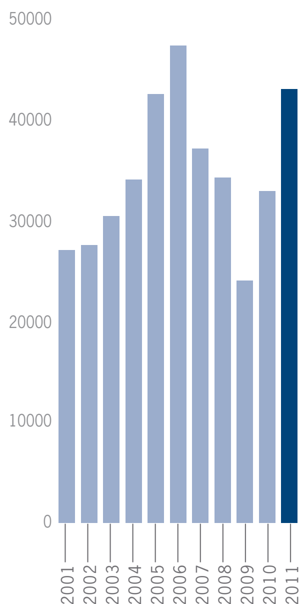
Net Earnings
(000's)

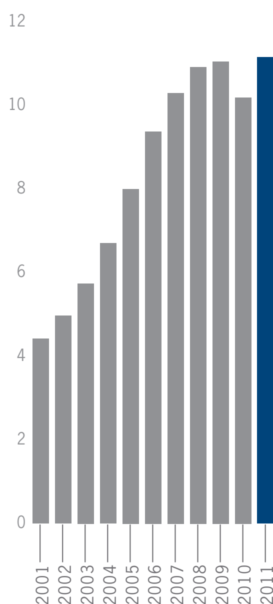
Funds Flow from Continuing Operations
(000's)

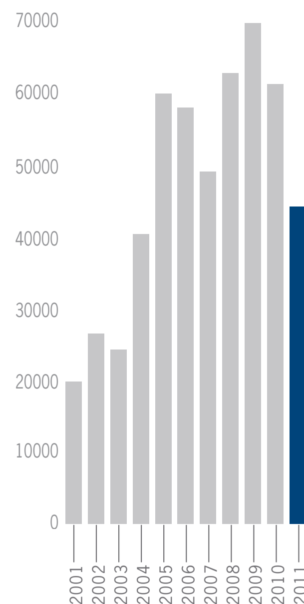
Year-end Equity per Share
($)

Year-end Working Capital
($000's)









2011 earnings rebounded following four years of declines. Improvements were broad based, as all categories of AKITA's rig fleet made significant contributions.

Improved market conditions had a positive effect on funds flow from operations. 2011 results were 79% higher than the trough experienced in 2009 and represent the second strongest performance in the past 10 years.

AKITA continues to maintain a strong liquidity position as demonstrated by having $44,265,000 in working capital. This has been a significant funding source for the Company's capital expenditure program.

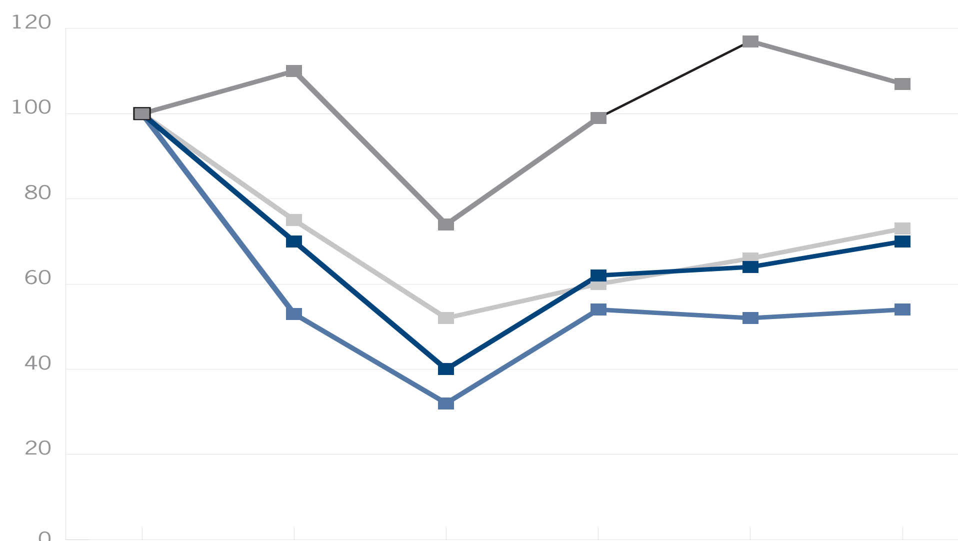
Equity per share grew 9.4% on a one year basis, and 10.7% compounded over the past ten years.

Note: Financial information has been calculated under Canadian GAAP for the years 2001 to 2009 and under IFRS for the years 2010 and 2011. Readers should be aware that these two sets of accounting standards are not consistent with each other.

Share Performance

Five Year Total Return on $100 Investment

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, 2006 with the cumulative total return of the S&P/TSX Composite Stock Index and the TSX Oil & Gas Drilling Sub-Index over the same period, assuming reinvestment of dividends.



	31 Dec 2006	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011
AKITA Class A	100	70	40	62	64	70
AKITA Class B	100	53	32	54	52	54
S&P/TSX Composite Index	100	110	74	99	117	107
TSX Oil & Gas Drilling Sub-Index	100	75	52	60	66	73

Share Performance

		2007	2008	2009	2010	2011
Weighted average number of Class A and Class B shares		18,275,846	18,255,099	18,230,913	18,148,246	18,083,411
Market prices for Class A Shares	High	$ 18.90	$ 17.50	$ 12.44	$ 10.71	$ 12.75
	Low	$ 9.51	$ 5.70	$ 5.25	$ 7.15	$ 9.18
	Close	$ 11.39	$ 6.35	$ 9.50	$ 9.50	$ 10.70
Volume		4,377,762	2,553,765	2,170,740	1,021,031	1,231,978
Market prices for Class B Shares	High	$ 21.50	$ 18.20	$ 12.25	$ 11.50	$ 12.65
	Low	$ 11.01	$ 6.65	$ 6.25	$ 8.04	$ 9.80
	Close	$ 11.25	$ 6.65	$ 10.76	$ 10.00	$ 10.25
Volume		13,135	7,051	14,049	13,268	14,436

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.

	2007	2008	2009	2010	2011
Dividends paid per share ($)	0.28	0.28	0.28	0.28	0.28

Letter to the Shareowners

Linda A. Heathcott
Chairman of the Board

Karl Ruud
Chief Executive Officer

2011 represented a positive year for AKITA resulting from improved utilization and day rates. As 2011 progressed, more rig categories participated in the recovery of industry activity. During the first half of the year, pad rigs and conventional doubles were the most active rig classes. Conventional singles followed that trend soon after and by year-end demand for conventional triples improved substantially. While strong crude oil prices were a major factor in the overall improvements achieved by AKITA, this recovery was all the more significant in light of very weak North American natural gas prices.

Net income for the year ended December 31, 2011 was $23,353,000 or $1.29 per share (basic and diluted) on revenue of $199,934,000. Comparative figures for 2010 were $7,470,000 or $0.41 per share (basic and diluted) on revenue of $145,138,000. Funds flow from operations for the current year was $42,880,000 as compared to $32,798,000 in 2010, while net cash from operating activities for 2011 was $34,196,000 as compared to $31,858,000 in 2010.

AKITA's rig utilization rate has traditionally been higher than the industry average and 2011 was no exception. While conventional rig activity, notably for deep capacity rigs, was negatively affected by low natural gas prices, pad rigs consistently achieved utilization that reinforced this category of assets as AKITA's most highly sought after rig class. The table below highlights AKITA's utilization rate for the past five years.

In 2010, AKITA converted three conventional rigs into pad rigs, upgraded the capacity of an existing pad rig and commenced the construction of a new pad rig. This activity was followed in 2011 with the conversion of three additional conventional rigs into pad rigs and the completion of the pad rig which was started in 2010. At year-end, the Company had one additional conventional rig undergoing conversion into a pad rig. Thus far, in the first quarter of 2012, the Company has been awarded long-term contracts for two new pad rigs, which are now under construction. Once these rigs are complete and operational, AKITA's fleet will total 40 rigs including 17 pad rigs. This compares favourably to industry, where less than 10% of all rigs are configured as pad rigs.

Rig Utilization Rates

%	2011	2010	2009	2008	2007
AKITA Pad Rigs	67.9	67.4	59.5	46.4	58.5
AKITA Fleet	51.5	37.8	31.1	42.2	40.9
Industry	49.6	40.7	24.6	41.7	37.0

Over the past several years, AKITA responded early to the shift in the nature of development drilling by AKITA's customers. Specifically, pad rigs have become a more prominent aspect of AKITA's drilling profile and provide a number of benefits to AKITA's customers. Unlike conventional rigs, self-moving pad rigs move within each given pad without the need to disassemble, hire trucks or reassemble the rig, thereby facilitating the drilling of multiple wells on each location or pad. This style of drilling provides significant efficiency enhancements when used in the appropriate applications. Once pad rigs have been moved to a pad, they are less susceptible to weather delays including the seasonal effect of break-up. By aggregating drilling locations into multi-well pads, the overall environmental footprint for resource development is reduced, both in terms of the combined size of surface lands utilized as well as the amount of related infrastructure consistent with AKITA's commitment to minimize any negative effects on the environment throughout its operations.

AKITA has the financial resources to accomplish its capital spending plans, having $18,228,000 in cash and $9,500,000 in term deposits at December 31, 2011. The Company has also established a long-term financing arrangement to provide up to $50,000,000 for capital expenditures and general corporate purposes.

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 2011, the Company's lost-time accident frequency was 0.24 accidents per 200,000 hours worked compared to an accident rate of 0.93 for the industry (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors). The Company incorporates methods to eliminate or reduce hazards in the design of equipment as well as through the use of regularly updated standardized operating procedures. All managers, employees and subcontractors are 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.

On November 8, 2011, the Canadian Association of Oilwell Drilling Contractors provided its industry drilling forecast for 2012 estimating the drilling of 12,672 wells, compared to 16,148 wells completed in 2011. The current year estimate was based upon commodity price assumptions of US $88 per barrel for crude oil and CAD $4.00 per mcf for natural gas. In addition to the number of wells drilled, horizontal and other more complex drilling applications affect the drilling days per well, thereby impacting the actual utilization rates for both AKITA and industry rigs. Although winter drilling activity to date is strong and appears to support this forecast, management remains cautious regarding post break-up drilling activity given the continuing natural gas price weakness and no clear signal of improvement.

We wish to thank the Board of Directors for their wise counsel and guidance, AKITA's employees for their dedication and hard work, and our customers and suppliers for their support and confidence in the Company. We wish to offer a special thank you to each of our shareowners, without whose support none of our achievements would be possible.

On behalf of the Board of Directors,

Linda A. Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

March 13, 2012

Management's Discussion & Analysis

The following Management's Discussion & Analysis ("MD&A") sets out management's analysis of the consolidated financial position, consolidated results of operations, consolidated cash flows and changes in shareholders' equity for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or "the Company") for the years ended December 31, 2011 and 2010. 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 consolidated financial statements for 2011 and 2010, including the notes thereto, found on pages 30 to 60, provide information on the Company's financial position, results of its operations, cash flows and changes in shareholders' equity. The information in this MD&A was approved by AKITA's Board of Directors on March 13, 2012 and incorporates all relevant considerations to that date.

Management has prepared this MD&A as well as the accompanying consolidated financial statements and the notes thereto. All amounts are reported in Canadian dollars.

Changeover to IFRS

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") would replace Canadian GAAP ("GAAP") in 2011 for profit-oriented Canadian publicly accountable enterprises. Consequently, the Company is reporting its results in accordance with IFRS beginning this year. Comparative information has been converted in this MD&A into IFRS, except where noted.

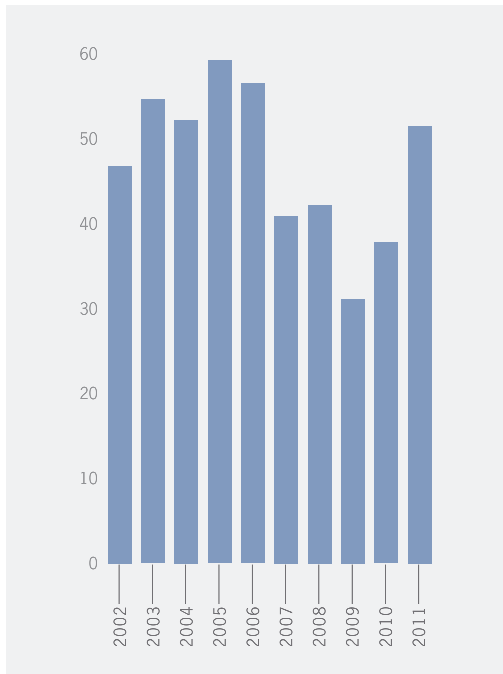
Introduction and General Overview

AKITA is a premier Canadian oil and gas drilling contractor. During 2011, the Company conducted operations in British Columbia, Alberta, Saskatchewan, Quebec and New Brunswick. The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in purpose-built drilling rigs including pad rigs with self-moving systems and is active in directional, horizontal and underbalanced drilling, providing specialized drilling services to a broad range of independent and multinational oil and gas companies. All of the Company's 38 rigs were located in Western Canada at December 31, 2011.

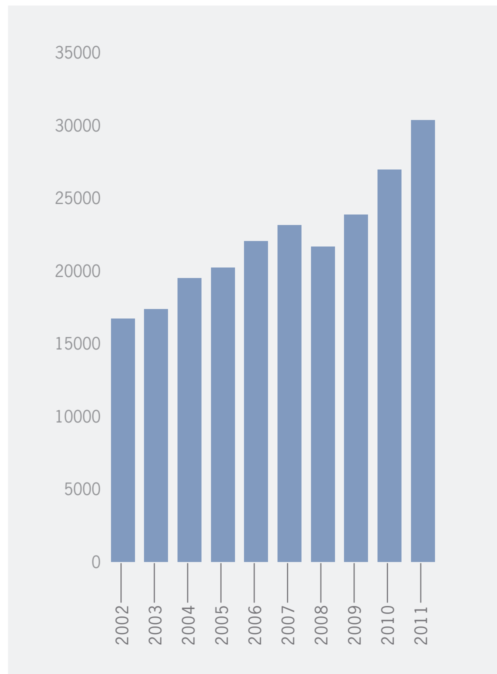
AKITA's growth strategy has focused on constructing new rigs and retrofitting existing rigs in response to specific customer requirements. This strategy enables AKITA to secure long term drilling contracts with customers who request specific rig configurations, and at the same time to continually upgrade its fleet. The Company utilizes this strategy to enhance its development of pad rigs designed for both heavy oil and natural gas located in shale formations as well as for other specialty applications. In 2011, AKITA exchanged its interests in two jointly owned arctic rigs for one rig on a wholly owned basis which was subsequently upgraded for use in a non-arctic environment. Additionally, the Company completed the upgrade of three pad rigs, constructed one new pad rig and commenced the conversion of an additional conventional rig into a pad rig.

Oil and gas contract drilling activity is cyclical and is subject to numerous factors including world crude oil prices and North American natural gas prices. Overall demand for AKITA's drilling services grew for the second straight year in 2011, following four years of general decline. Due to the continuing low price of natural gas, most of the Company's 2011 activity related to either drilling for crude oil or for natural gas rich in liquid forms of hydrocarbons.

AKITA's Ten Year Historical Rig Utilization Rates



AKITA's Ten Year Revenue Per Day Statistics



Note: Revenue has been calculated under Canadian GAAP for the years 2002 to 2009 and under IFRS for the years 2010 and 2011. Each of these methods of calculating revenue has been consistently applied from year to year. However, readers of this MD&A should be aware that the two methods of calculating revenue are not entirely consistent with each other.

Typically, recovery in rig utilization occurs prior to a recovery in day rates. However, during the past three years, increased day rates for pad rigs preceded the increase in overall drilling activity levels. Day rates for conventional rigs followed a more typical pattern and did not begin to show notable levels of improvement until the second half of 2010. Further improvements in day rates, particularly for conventional rigs, had a positive impact during 2011 as demonstrated in the graph above (left).

Revenue and Operating & Maintenance Expenses

$Million	2011	2010	Change	% Change
Revenue	199.9	145.1	54.8	38%
Operating & Maintenance Expenses	132.5	96.9	35.6	37%
Operating margin (1)	67.4	48.2	19.2	40%

(1) Operating margin is the difference between revenue and operating & maintenance expenses

$Dollars	2011	2010	Change	% Change
Revenue per operating day	29,158	26,962	2,196	8%
Operating & Maintenance Expenses per operating day	19,326	18,005	1,321	7%
Operating margin (1) per operating day	9,832	8,957	875	10%

(1) Operating margin is the difference between revenue and operating & maintenance expenses

The changeover from GAAP to IFRS did not directly affect the Company's recognition of revenue. It did, however, affect the balances reported for operating and maintenance expenses. Certain expenditures that were previously recorded as maintenance expenses under GAAP are now recorded as property, plant and equipment under IFRS. This reduced the balance otherwise reported as operating and maintenance expenses under IFRS.

Upon adoption of IFRS, revenue for goods and services provided by the Company to its customers on a cost recovery basis is presented in the Company's income statement on a gross basis. These amounts were reported on a net basis under Canadian GAAP. This change has resulted in offsetting increases to Revenue, Operating and Maintenance and Selling and Administrative expenses.

Revenue increased to $199,934,000 in 2011 from $145,138,000 in 2010. Stronger market conditions resulted in the Company achieving 6,857 operating days of rig activity compared to 5,383 operating days in 2010. This stronger market also had a positive impact on day rates, as average revenue per day increased to $29,158 per day compared to $26,962 in the comparative year. Revenue improvements were broadly based: conventional drilling activity improved as a result of increasing demand for AKITA's rigs while pad drilling demand improvements were largely a result of having an increasing number of rigs to service this aspect of the market.

Operating and maintenance costs are tied to activity levels and amounted to $132,520,000 or $19,326 per operating day during 2011 compared to $96,919,000 or $18,005 per operating day for the prior year. This increase in total operating and maintenance costs was the result of increased drilling activity coupled with the change in rig mix including the change in the range of services provided.

The Company's operating margin for 2011 was $67,414,000, up from $48,219,000 in 2010. The operating margin improvement was a combined result of higher rig utilization and improved profit margins on a "per operating day" basis; both improvements due to stronger market conditions in 2011 as compared to 2010. On a "per operating day" basis, AKITA's operating margin rose in 2011 to $9,832 from $8,957 in 2010.

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on day work contracts is measured based upon the passage of time in accordance with the terms of the contract. All revenue generated in 2011 and 2010 was generated under day work contracts. No significant losses were anticipated at either of these year-end dates and accordingly no provision for material losses has been made.

From time to time, the Company requires customers to make pre-payments prior to the provision of drilling services. At December 31, 2011, these prepayments totalled $146,000 (December 31, 2010 - $Nil).

AKITA provided drilling services to 40 different customers in 2011 (42 different customers - 2010), including two customers that each provided more than 10% of AKITA's revenue for the year (2010 – four customers).

Depreciation Expense

$Million	2011	2010	Change	% Change
Depreciation Expense	20.9	24.5	(3.6)	(15%)

The changeover from GAAP to IFRS affected the balances reported and methods used in determining depreciation expense. Certain expenditures that were previously recorded as maintenance expenses under GAAP are now recorded as property, plant and equipment under IFRS. This had the impact of increasing the balance otherwise reported as depreciation expense under IFRS. Depreciation is also measured on a more detailed component-by-component basis under IFRS rather than using the asset-by-asset basis under GAAP. This change in approach has resulted in some differences that, depending on the actual assets being depreciated, had the effect of either increasing or decreasing the actual depreciation balance reported. In general, the more detailed component-by-component depreciation approach is not expected to produce changes that are material in amount especially when considered over extended periods.

During 2011, the Company analyzed historical use patterns for its fleet and consequently changed its estimate of the useful lives of its rigs. Previously, most of the Company's rig components were depreciated over an average of 2,000 operating days per rig, while selected rigs had components that were being depreciated over an average of 3,600 operating days. Effective January 1, 2011, the Company began depreciating all of its rigs over an average useful life of 3,600 operating days per rig. AKITA depreciates its drilling rigs using the unit of production method.

Concurrent with the change in estimate for useful lives of rigs, the Company reassessed and changed its estimates for salvage values for its rigs. Previously, salvage values were set between $50,000 and $300,000 per rig. Effective January 1, 2011, the Company began applying salvage values equal to 20% of the original cost of each rig.

The major factors that impacted 2011 and 2010 depreciation were as follows: the one-time change to useful lives of rigs and related salvage values described previously (effect was to reduce 2011 depreciation by $6,867,000; 2010 – no change), ongoing rig activity levels, ongoing changes in rig mix working, and the recording of certain expenditures as assets under IFRS, necessitating depreciation for costs recorded as expense under previous GAAP. This final change resulted in an increased depreciation expense of $4,645,000 for 2011 (2010 - $3,945,000). Since depreciation is based upon usage, it is impracticable to determine the impact of these changes in estimates for future periods until they occur.

The decrease in depreciation expense to $20,933,000 during 2011, from $24,540,000 during 2010 was mostly attributable to the change in estimated useful lives for the rig fleet. Higher rig activity and a mix of rigs working having a higher average cost base offset much of the impact of the above noted change in estimated useful lives for the rig fleet compared to the previous year. Drilling rig depreciation accounted for 96% of total depreciation expense in 2011 (2010 – 96%).

Selling and Administrative Expenses

$Million	2011	2010	Change	% Change
Selling & Administrative Expenses	16.1	13.6	2.5	18%

The changeover from GAAP to IFRS did not affect the Company's recognition of selling and administrative expenses per se. However, selling and administrative expenses increased $240,000 in 2011 ($173,000 in 2010) as a result of the Company's change in revenue presentation as described in this MD&A under the section "Revenue and Operating & Maintenance Expenses".
Selling and administrative expenses increased to $16,117,000 in 2011 from $13,625,000 in 2010. Selling and administrative expenses equated to 8.1% of total revenue in 2011, compared to 9.4% of total revenue in 2010, in part due to the increase in rig activity and related revenue.

The single largest component of selling and administrative expenses was salaries and benefits which accounted for 64% of these expenses (60% in 2010).

Other Income

$Million	2011	2010	Change	% Change
Interest Income	0.6	0.8	(0.2)	(25%)
Gain on Sale of Joint Venture Interests in Rigs and Other Assets	0.8	0.1	0.7	700%
Other Income	1.4	0.9	0.5	56%

The changeover from GAAP to IFRS did not affect the Company's recognition of other income.

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income, decreased to $638,000 in 2011, compared to $798,000 in 2010 as a result of reduced cash and term deposit balances, as these assets were deployed to fund the Company's significant capital expenditure program.

The gain on sale of joint venture interests in rigs and other assets, which resulted from the disposition of certain non-core assets, totalled $787,000 in 2011 compared to $75,000 in the previous year. The Company does not anticipate this to be a significant continuing source of regular earnings in the future.

In 2011, the Company conducted all of its operations in Canada, thereby reducing its exposure to foreign currencies.

Income Tax Expense

$Million	2011	2010	Change	% Change
Current Tax	9.4	2.9	6.5	224%
Deferred Tax	(1.0)	0.6	(1.6)	(267%)
Total Income Tax Expense	8.4	3.5	4.9	140%

The changeover from GAAP to IFRS did not affect methods used in determining income tax expense. However, predominantly as a result of changes in balances reported for income before income taxes due to decreased operating and maintenance expense and increased depreciation expense, the amount reported as deferred income tax expense has increased vis-à-vis the balance that would have been recorded under Canadian GAAP.

Income tax expense increased to $8,409,000 in 2011 from $3,462,000 in 2010, due to higher pre-tax income as well as one-time costs to repatriate one of the Company's rigs (hereinafter referred to as the "Arctic Wolf") from Alaska to Canada.

During 2011, the Company repatriated the Arctic Wolf. This repatriation was treated as a sale at fair value for US tax purposes, thereby creating a taxable event. The effect was to increase current tax expense and current income taxes payable by $2,432,000 and to decrease deferred tax expense and deferred income taxes payable by $2,263,000. This transaction was carried out to reduce the income taxes payable for income earned from the rig's future operations, since the Canadian income tax rate is substantially lower than the US income tax rate.

Net Income and Cash Flow

$Million	2011	2010	Change	% Change
Net Income	23.4	7.5	15.9	212%
Funds Flow from Operations[1]	42.9	32.8	10.1	31%
Change in Non-Cash Working Capital	(11.9)	(1.3)	(10.6)	815%
Non-Cash Income Tax Expense	9.4	2.9	6.5	224%
Income Tax Paid	(6.2)	(2.5)	(3.7)	148%
Net Cash from Operating Activities	34.2	31.9	2.3	7%

(1) See commentary regarding non standard accounting measure

The changeover from GAAP to IFRS affected the determination of both net income and funds flow from operations. This was primarily due to a decrease in operating and maintenance expenses that was partially offset by an increase in depreciation expense.

Net income increased to $23,353,000 or $1.29 per Class A Non-Voting and Class B Common Share (basic and diluted) for 2011 from $7,470,000 or $0.41 per share (basic and diluted) in 2010. Funds flow from operations increased to $42,880,000 in 2011 from $32,798,000 in 2010. Higher net income and funds flow from operations that occurred in 2011 were directly attributable to increased demand for AKITA's drilling services, resulting in both higher activity levels and increased operating margins per day compared to 2010.

Each of AKITA's rig classes contributed to the improvements in net income and funds flow from operations. During the year, the Company increased the number of rigs performing pad drilling, thereby increasing the total number of drilling days and associated net income and funds flow from operations. Conventional rig utilization and associated day rates both increased resulting in improved financial results.

Non Standard Accounting Measure

Funds flow from operations is not a recognized measure under IFRS. 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.

Fleet and Utilization

The following table summarizes rig changes that occurred in 2011:

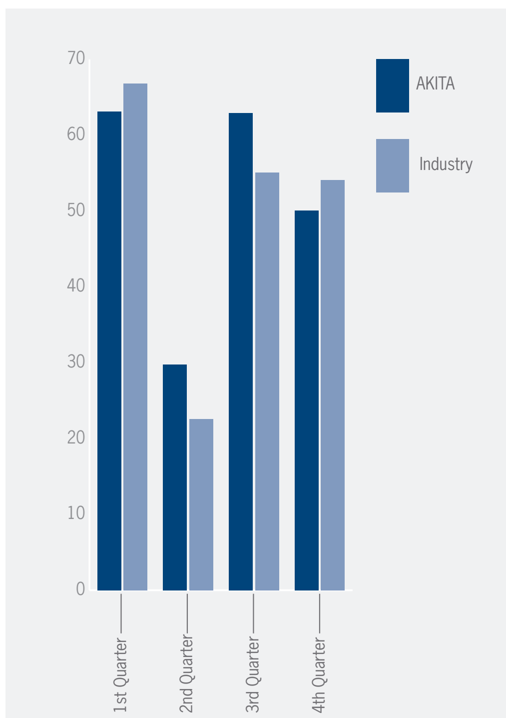
Fleet Changes during 2011

	Gross	Net
Number of rigs at December 31, 2010	37	33.225
Exchange of two 50% interests in two rigs into a 100% interest in one rig	(1)	0.000
New rigs completed during the year	2	1.850
Number of rigs at December 31, 2011	38	35.075

Utilization rates are a key statistic for the drilling industry since they measure revenue volume and influence pricing. During 2011, AKITA achieved 6,857 operating days, which corresponded to a utilization rate of 51.5% compared to an industry average utilization rate of 49.6% during the same period. During the comparative year in 2010, AKITA achieved 5,383 operating days, representing 37.8% utilization. It should be noted that AKITA calculates utilization rates based upon rigs actively operating. Rigs that are moving or receiving standby revenue do not contribute to AKITA's utilization statistic.

The drilling industry is seasonal, with activity building in the fall and peaking during the winter months, at which time areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak drilling season ends with "spring break-up", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

The following graph illustrates AKITA's 2011 drilling utilization rates compared to the industry average:



Note: Drilling utilization rates are average rates based upon the number of days in a year a rig is operating, excluding move days.

Source: Canadian Association of Oilwell Drilling Contractors (CAODC).

In addition to traditional seasonal impacts, the business of AKITA is affected at various times 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. Another impact of warmer than normal temperatures on AKITA is related to a reduced demand for natural gas for heating. To the extent that warmer weather impacts the demand for natural gas including the resultant lower natural gas prices for many of AKITA's customers, AKITA's customers might reduce natural gas drilling programs, which in turn, might reduce the demand for AKITA's services.

A significant shift in drilling has occurred in recent years with respect to the type of equipment preferred by AKITA's customers. Primarily, this shift was away from conventional rigs requiring trucks to relocate from well to well, towards the use of pad rigs with self-moving systems which allow the rig to move itself within a set of well locations. Moreover, pad rigs typically drill wells in "batches" whereby a series of well segments are drilled, followed by a second series and then a final series of segments. This style of drilling, as opposed to drilling each well from start to finish prior to moving, provides significant efficiency gains when used in the appropriate applications.

The following table demonstrates the range of drilling capabilities for the Company's fleet:

Drilling Fleet Summary at December 31, 2011

	Conventional Rigs		Pad Rigs	
	Number of Rigs	Percent Utilization	Number of Rigs	Percent Utilization
Singles	9	40.2%	0	N/A
Doubles	8	61.5%	4	73.4%
Triples	7	28.3%	10	65.7%
Total	24	45.2%	14	67.9%

Note: At December 31, 2011, the Company was in the process of converting one of its conventional triples into a pad rig. Once complete, this will reduce the number of conventional triples to six rigs and increase the number of pad triples to 11 rigs.

From time to time, the Company enters into drilling contracts for extended terms. At December 31, 2011, AKITA had nine rigs with multi-year contracts that extend into 2012 or beyond. Of these contracts, one is anticipated to expire in 2012, five in 2013 and three in 2014.

Competition in the Canadian drilling industry is affected by the overall size of the drilling fleet and the level of customer demand. At December 31, 2011 there were 807 drilling rigs registered with the CAODC (December 31, 2010 – 794). AKITA's drilling fleet of 38 rigs represented 4.7% of the total Canadian drilling fleet at December 31, 2011 (December 31, 2010 – 4.4%).

Summary of Quarterly Results

The following table shows key selected quarterly financial information for the Company:

(Dollars in thousands, except per share)	Three Months Ended				
(Unaudited)	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Total
2011 (1)					
Revenue	**57,444**	**31,651**	**54,874**	**55,965**	**199,934**
Net income	**7,952**	**1,498**	**6,926**	**6,977**	**23,353**
Earnings per share (basic and diluted) ($)	**0.44**	**0.08**	**0.38**	**0.39**	**1.29**
Funds flow from operations	**13,712**	**3,239**	**12,825**	**13,104**	**42,880**
Net cash from (used in) operating activities	**6,945**	**15,744**	**(1,989)**	**13,496**	**34,196**
2010 (1)					
Revenue	43,965	25,289	34,042	41,842	145,138
Net income (loss)	720	(319)	2,215	4,854	7,470
Earnings (loss) per share (basic and diluted) ($)	0.04	(0.02)	0.12	0.27	0.41
Funds flow from operations	7,644	5,120	8,476	11,558	32,798
Net cash from (used in) operating activities	(2,072)	18,058	11,807	4,065	31,858
2009 (2)					
Revenue	41,696	17,881	20,871	25,815	106,263
Net income	3,908	555	752	3,165	8,380
Earnings per share (basic and diluted) ($)	0.21	0.03	0.04	0.18	0.46
Funds flow from operations	12,051	2,750	3,169	5,990	23,960
Cash flow from operations	11,258	12,519	4,924	534	29,235

Notes:
(1) Quarterly results for 2011 and 2010 have been calculated on an IFRS basis.
(2) Quarterly results for 2009 have been calculated under a GAAP basis and may not be comparable to results prepared under IFRS.

During the fourth quarter of 2011, rig activity for the Company included 1,715 operating days compared to 1,422 operating days during the corresponding period in 2010. This increase in overall activity levels had a positive correlation on overall results as revenue rates equated to $32,633 per operating day in the fourth quarter of 2011 compared to $29,425 in the fourth quarter of 2010. Operating costs, which are also tied to activity levels, increased to $22,451 per day compared to $18,307 in the corresponding quarter of 2010. Consequently, the Company's operating margin in the fourth quarter of 2011 (being the difference between revenue and operating and maintenance costs) increased to $17,462,000 during the fourth quarter of 2011 from $15,810,000 in the corresponding quarter in 2010. However, the operating margin on a per operating day basis declined in the fourth quarter of 2011 to $10,182 per operating day compared to the operating margin of $11,118 per operating day in the fourth quarter of 2010. AKITA's conventional rigs were busier in the fourth quarter of 2011 compared to the corresponding quarter in 2010. These rigs typically garner lower margins than the pad rigs, and were a significant factor in the quarterly "per operating day" margin reduction experienced in the current quarter.

Net income increased to $6,977,000 or $0.39 per Class A Non-Voting and Class B Common Share (basic and diluted) for the fourth quarter of 2011 from $4,854,000 or $0.27 per share (basic and diluted) in the fourth quarter of 2010. Funds flow from operations increased to $13,104,000 in the fourth quarter of 2011 from $11,558,000 in the corresponding quarter in 2010. The higher net income and funds flow that occurred in the fourth quarter of 2011 compared to the corresponding quarter in 2010 was directly attributable to increased demand for AKITA's drilling services.

Overall liquidity decreased at December 31, 2011 compared to the corresponding 2010 year-end date by $17,076,000 as measured in terms of overall working capital. Year over year working capital decreased primarily as a result of the higher overall level of capital expenditures during 2011 compared to the previous year. AKITA's cash balance decreased $19,736,000 on a year-over-year basis and was $18,228,000 at December 31, 2011 (December 31, 2010 - $37,964,000). The Company also held $9,500,000 in term deposits at December 31, 2011 (December 31, 2010 - $10,000,000).

Three Year Annual Financial Summary

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

Three Year Summary

($Thousands, except per share) (Unaudited)	2011 (1)	2010 (1)	2009 (2)
Revenue	199,934	145,138	106,263
Net income	23,353	7,470	8,380
Basic earnings per share	1.29	0.41	0.46
Diluted earnings per share	1.29	0.41	0.46
Dividends per Class A Non-Voting and Class B Common share	0.28	0.28	0.28
Funds flow from operations	42,880	32,798	23,960
Net cash from operating activities	34,196	31,858	29,235
Year-end working capital	44,265	61,341	69,819
Year-end other long-term liabilities	13,799	14,664	21,172
Year-end shareholders' equity	201,104	183,739	201,446
Year-end total assets	247,130	218,587	234,215

Notes:

(1) Annual results for 2011 and 2010 have been calculated on an IFRS basis.

(2) Annual results for 2009 have been calculated under a GAAP basis and may not be comparable to results prepared under IFRS.

Liquidity and Capital Resources

The changeover from GAAP to IFRS affected the balances reported and methods used in determining property, plant and equipment. On January 1, 2010, the Company recorded an IFRS 1 exemption to report selected assets at fair value for deemed costs. This exemption resulted in a reduction of carrying values of $32,578,000 at that date. Certain expenditures that were previously recorded as maintenance expenses under GAAP are now recorded as property, plant and equipment under IFRS. Depreciation is also measured on a more detailed component-by-component basis under IFRS rather than using an asset-by-asset basis used under GAAP. This change in approach resulted in some differences that, depending on the actual assets being depreciated, had the effect of either increasing or decreasing the carrying values for property, plant and equipment. In general, the more detailed component-by-component depreciation approach is not considered to produce changes that are material in amount especially when considered over extended periods.

The changeover from GAAP to IFRS did not affect the balances reported for working capital items for the Company.

As a result of a change in the estimate of useful lives for most of its rigs, the carrying values for property, plant and equipment are higher than they would have been if the previous estimates were continued. Please refer to the depreciation discussion on page 8 and 9 of this document for further information.

AKITA has typically generated sufficient cash flow from operations to fund its normal operating activities as well as routine capital expenditures. The Company excludes new rig construction from its definition of routine 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. However, in 2011, AKITA's net capital expenditure program of $56,933,000 represented 133% of funds flow from operations. In 2010, AKITA's net capital expenditure program of $37,895,000 represented 116% of funds flow from operations. In addition to routine capital expenditures, the Company added new rigs in each of 2011 and 2010. Further details of AKITA's capital expenditure program can be found in the next section of this MD&A under the heading "Property, Plant and Equipment".

At December 31, 2011, AKITA had $44,265,000 in working capital, including $18,228,000 in cash and $9,500,000 in term deposits, compared to $61,341,000 in working capital, including $37,964,000 in cash and $10,000,000 in term deposits, for the previous year. In 2011, AKITA generated $34,196,000 from operating activities. Cash was also generated from proceeds on sales of joint venture rigs and other assets ($1,487,000) and the redemption of term deposits ($500,000). During the same period, cash was used for capital expenditures ($48,985,000), payment of dividends ($5,066,000), repurchasing share capital ($1,118,000) and to increase restricted cash ($500,000) and payment of a loan commitment fee ($200,000).

For all of 2010 and most of 2011, the Company did not have a bank operating loan or other lending facility. In the fourth quarter of 2011, the Company established an operating loan facility with its principal banker totalling $50,000,000 having an initial five year term. Although the facility has been extended in order to provide financing for general corporate purposes, capital expenditures and acquisitions, management intends to access this facility primarily to enable the Company to fund new rig construction requirements related to drilling contracts that it might be awarded. The interest rate on the facility varies based upon the actual amounts borrowed, but ranges from 0.4% to 1.4% over prime interest rates or 1.4% to 2.4% over guaranteed notes, depending on the preference of the Company. The Company did not access this facility during the year.

The Company had outstanding normal course issuer bids throughout most of 2011 and 2010. During 2011, the Company repurchased 100,208 Class A Non-Voting Shares at an average price of $11.16 pursuant to its normal course issuer bid. During 2010, the Company repurchased 158,104 Class A Non-Voting Shares at an average price of $8.53.

In 2009, AKITA renewed its lease for its head office. In 2011, the cost for this lease was $362,000. The lease expires on December 31, 2014.

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

Contractual Obligations

$Thousands	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Operating leases	**1,576**	516	1,060	Nil	Nil
Purchase obligations	**1,300**	325	650	325	Nil
Capital expenditure commitments	**531**	531	Nil	Nil	Nil
Pension obligations	**1,535**	Note	Note	Note	Note
Total contractual obligations	**4,942**	1,372	1,710	325	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost for year one ranges from $15,000 to $53,000, from year one to three ranges from $30,000 to $118,000, from year four to five ranges from $45,000 to $190,000 with the balance being due after five years in any event.

Property, Plant and Equipment

AKITA's 2011 capital expenditure program was its largest in its history. The Company has been actively executing its strategy to increase market penetration in self-moving pad rigs. During the year, the Company completed the conversion of three conventional rigs into pad rigs and added one new pad rig. At December 31, 2011, AKITA had one additional rig that was undergoing a conversion from a conventional rig into a pad rig.

In addition to AKITA's emphasis on increasing its number of pad rigs, the Company executed a rig exchange transaction with a joint venture partner in Alaska, whereby two 50% owned rigs were divided leaving each venturer with possession of one complete rig. AKITA subsequently relocated its rig to Canada. This rig, a heavy conventional double, was retrofitted to make it competitive in a non-arctic environment.

Capital expenditures totalled $56,933,000 in 2011. The total cost of the rig construction projects described in the previous two paragraphs totalled $30,062,000 of this amount. Additional capital expenditures related to rig equipment for existing rigs ($14,098,000), certifications and overhauls having a life in excess of one year ($7,536,000), drill pipe and drill collars ($2,587,000) and other equipment ($2,650,000). Capital expenditures for 2010 totalled $37,895,000. It should be noted that prior to the adoption of IFRS, certification and overhaul costs were charged to expense.

During 2011, AKITA did not have any significant disposals of capital assets.

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 estimated discounted cash flows) will be achieved over remaining service lives. No adjustments were made in 2011 or 2010 to carrying values as a result of this review.

Financial Instruments

The Company's financial assets and liabilities include cash, cash equivalents, term deposits, accounts receivable, restricted cash, accounts payable and accrued liabilities. 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 mitigate credit risk. Provisions have been estimated by management and included in the accounts to recognize potential bad debts.

Off-Balance Sheet Transactions

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

Related Party Transactions

All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts.

AKITA is affiliated with the ATCO Group of companies and to Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. Operating purchases totalled $367,000 and included sponsorship and advertising ($325,000) and other miscellaneous purchases ($42,000). During 2011, the Company renewed its multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2011, the remaining commitment was $1,300,000. Costs incurred related to this contract during 2011 were $325,000 (2010 - $325,000). In addition to operating purchases, the Company purchased well site trailers for its rig operations totalling $638,000.

The Company incurred legal fees of $86,000 (December 31, 2010 - $42,000) during the year for services related to various legal matters with a law firm of which a director of the Company was a partner at December 31, 2011. At December 31, 2011, $38,000 (December 31, 2010 - $Nil) of this amount was included in accounts payable.

The Company is related to its Joint Ventures. The accompanying table summarizes transactions and annual balances with its Joint Ventures.

$Thousands	2011	2010
Revenue	151	82
Operating and maintenance costs	3,935	4,150
Selling and administrative costs	624	469
Year-end accounts payable	2,272	1,830

Class A and Class B Share Dividends

Per Share	2011	2010	Change	% Change
Dividends per share	0.28	0.28	0.00	0%

During 2011, AKITA paid dividends totalling $5,066,000 ($0.28 per share) on its Class A Non-Voting Shares and Class B Common Shares, compared to $5,079,000 ($0.28 per share) for 2010. 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 in 1997, dividends have been paid in each quarter of every year. The most recent dividend was declared on March 13, 2012 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	
$Thousands	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
January 1, 2010	16,582,333	22,010	1,654,284	1,366	18,236,617	23,376
Shares repurchased in 2010	(158,104)	(209)	-	-	(158,104)	(209)
Stock options exercised in 2010	52,000	280	-	-	52,000	280
Conversions Class B to Class A shares	400	-	(400)	-	-	-
December 31, 2010	16,476,629	22,081	1,653,884	1,366	18,130,513	23,447
Shares repurchased in 2011	(100,208)	(139)	-	-	(100,208)	(139)
December 31, 2011	16,376,421	21,942	1,653,884	1,366	18,030,305	23,308

Exercisable options @ Dec. 31, 2011	**145,000**
Unexercisable options @ Dec. 31, 2011	**196,500**

At March 13, 2012, the Company had 16,376,421 Class A Non-Voting Shares and 1,653,884 Class B Common shares outstanding. At that date, there were also 341,500 stock options outstanding, of which 145,000 were exercisable.

Joint Ventures

The Company conducts certain operations via joint ventures. Ownership in and results of operations 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 an adverse material financial statement impact.

Since 2000, AKITA constructed eight drilling rigs under joint ventures. As part of the agreements to construct each rig, multi-year term contracts were entered into with customers. Six of the initial term contracts expired prior to 2011. One initial term contract expired in 2011 and the remaining contract expires in 2013.

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

$Thousands	2011	2010
Current assets	**8,287**	5,575
Capital assets, net of depreciation	**44,460**	28,165
Current liabilities	**2,644**	2,040
Revenue	**28,329**	21,010
Expenses	**18,231**	11,030
Net income	**10,098**	9,980

Accounting Estimates

The preparation of AKITA's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the consolidated financial statements as well as reported amounts for revenue and expenses for the year. Estimates and judgments are continually evaluated and are based upon historical experience and other factors including expectations of future events that are believed to be reasonable in the circumstances. Actual outcomes could differ materially from these estimates.

The Company makes assumptions relating to transactions that were incomplete at the balance sheet date. Depending on the actual transaction, total assets and liabilities of the Company as well as results of operations including net income could be either understated or overstated as a result of differences between amounts accrued for incomplete transactions and the subsequent actual balances.

The preparation of AKITA's consolidated financial statements includes significant estimates relating to the useful lives of drilling rigs. Depreciation is calculated using a detailed approach based on major components, and results in an average useful life of 3,600 operating days per rig. Drilling rigs are depreciated using the unit of production method.

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.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss calculated as the difference between the amortized cost of the asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount.

AKITA's asset impairment estimates do not have any effect on the changes to financial condition for the Company, as any asset write-down would be a non-cash item. However, total assets and results of operations including net income could be overstated as a result of projections of discounted future cash flows that are too low.

A significant estimate used in the preparation of AKITA's consolidated financial statements relates to the defined benefit pension liability for certain employees that was recorded as $1,535,000 at December 31, 2011 (2010 - $1,429,000). 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 2011, a key assumption relates to the use of a 4.25% discount rate. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the recording of the Company's defined benefit pension liability. This pension is an unfunded liability of the Company.

The Company makes assumptions relating to deferred income taxes, including future tax rates, timing of reversals of timing differences and the anticipated tax rules that will be in place when timing differences reverse. Consequently, total liabilities of the Company as well as results of operations including net income could be either understated or overstated.

Commitments

During the year, AKITA guaranteed bank loans made to joint venture partners in order to facilitate their purchase of co-owned rig interests totalling $2,700,000 for a period of four years. AKITA has provided an assignment of monies on deposit totalling $3,000,000 with respect to these guarantees. AKITA's security from its partners for these guarantees includes interests in specific rig assets. The $3,000,000 in deposits have been classified as restricted cash on the balance sheet and are in addition to the $18,228,000 in cash and $9,500,000 in term deposits held at December 31, 2011.

Business Risks and Risk Management

The following information is a summary only of certain risk factors and should be read in conjunction with the detailed information appearing elsewhere in this document. Shareholders and potential shareholders should consider carefully the information contained herein including the following risk factors.

Competition

The contract drilling industry is highly competitive and includes a large number of drilling contractors with varied rig fleets. Drilling contracts are usually awarded through a competitive bid process with pricing and rig availability being primary drivers in the bid process. Other factors that influence the bid process include: mobility and efficiency of the rig; experience and quality of service provided by rig crews; safety record of the rig as well as the contractor as a whole and the adaptability of equipment to utilize new technologies. Rigs can be moved from one region to another depending on the competitive environment within that region and therefore a contractor's competitive advantage in a region can be quickly eroded by other contractors moving in equipment from other regions. Reduced levels of activity in the oil and gas industry can also increase competition and therefore lower day rates.

Dependence on Major Customers

AKITA earned 38.5% of total revenue from two major customers. These were the only two customers to individually provide over 10% of the Company's revenue for the 2011 fiscal year. The loss of one or more major customers or a significant reduction in the business done with these customers without offsetting new sales could have a material adverse effect on AKITA's business, results of operations and prospects.

Seasonal Nature of Industry

In Canada, the level of activity in the contract drilling industry, particularly for conventional rigs, is influenced by seasonal weather patterns. Spring breakup, which typically occurs between mid-March and mid-June, makes the ground unstable leaving many secondary roads temporarily incapable of supporting the weight of heavy equipment, thereby reducing drilling activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenue.

There is greater demand for contract drilling services in the winter drilling season as freezing permits the movement and operation of heavy equipment. Drilling activities tend to increase in the fall as the ground begins to freeze and peak in the winter months of November through February as areas having muskeg conditions also become accessible to drilling operations. Variability in the weather can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Volatility of Industry Conditions

The demand, pricing and terms for contract drilling services is dependent upon the level of industry activity for Canadian crude oil and natural gas exploration and development. Industry conditions are influenced by numerous factors which AKITA does not control including: current crude oil and natural gas prices; expectations about future crude oil and natural

gas prices; the cost of exploring for, producing and delivering crude oil and natural gas; the expected rates of decline in current production for AKITA's customers; discovery rates of new oil and gas reserves by AKITA's customers; available pipeline and other oil and gas transportation capacity; weather conditions; political, regulatory and economic conditions; the ability of oil and gas companies to raise equity capital or debt financing and technological advances in the exploration and production of crude oil and natural gas.

The level of activity in the Canadian oil and gas exploration and production industry is volatile. No assurance can be given that the expected trends in oil and gas exploration and production activities will continue or that demand for contract drilling services will reflect the level of activity in the industry. Any prolonged substantial reduction in crude oil and natural gas prices would likely affect oil and gas production levels and therefore affect the demand for drilling services to oil and gas customers. Any elimination or curtailment of government incentives or adverse changes in government regulation could have a significant impact on the contract drilling industry in Canada or individual provinces within Canada. These factors could lead to a decline in demand for AKITA's services which would result in a material adverse effect on AKITA's business, financial condition, results from operations and cash flow.

Drilling Rig Technology

Complex drilling programs for the exploration and development of remaining conventional and unconventional crude oil and natural gas reserves in North America demand high performance drilling rigs. The ability of contract drilling companies to meet this demand will depend upon continuous improvement of existing technology, such as move systems, control systems, automation, drive systems, mud systems and top drives designed to improve drilling efficiency. AKITA's ability to deliver equipment and services that are more efficient than those of its competitors is important to continued success. There is no assurance that competitors will not achieve technology improvements that are more advantageous, timely or cost efficient than improvements developed by AKITA.

AKITA has not sought or obtained patent or similar protection in respect of any drilling rigs, equipment or technology it has developed independently. In the future, AKITA may seek patents or other similar protections in respect of particular equipment and technology, however, AKITA may not be successful in such efforts. Competitors may also develop similar equipment and technology to that of AKITA thereby adversely affecting AKITA's competitive advantage. Additionally, there can be no assurance that certain equipment or technology developed by AKITA may not be subject to future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have material adverse effects on the business, results of operations and financial conditions of AKITA.

Labour

The contract drilling industry is dependent upon attracting, developing and maintaining a skilled and safe workforce. During periods of peak activity levels, AKITA may be faced with a lack of personnel to operate AKITA's equipment. AKITA is also faced with the challenge of retaining its most experienced employees during periods of low utilization. The Company's financial results depend, at least in part, upon its ability to attract, develop and maintain a skilled work force, while maintaining a cost structure that varies with activity levels.

A number of AKITA's key customers evaluate the ability of contract drilling companies to provide and maintain a high standard of safe operations prior to their selecting a drilling contractor for the provision of drilling services. AKITA's financial success is related to its ability to continue to meet those expectations.

Capital Overbuild in Contract Drilling Industry

Drilling rigs have a long life span and there is a significant lag between when the decision to build a rig is made and the construction is complete: these two factors contribute to the supply of rigs in the industry not always aligning with the demand for drilling rigs. High demand typically spurs greater capital expenditures by drilling contractors which may,

in turn exceed demand in future periods. A potential capital overbuild may cause AKITA's competitors to lower rates and could lead to a general reduction in rates in the industry as a whole, which would have a material effect on AKITA's business, financial condition, results from operations and cash flows.

Environmental and Other Regulations

AKITA's operations are subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety. These laws, regulations and guidelines include those relating to spills, releases, emissions and discharges of hazardous substances or other waste materials into the environment, requiring removal or remediation of pollutants or contaminants and imposing civil and criminal penalties for violations. Some of the laws, regulations and guidelines that apply to AKITA's operations also authorize the recovery of natural resource damages by the government, injunctive relief and the imposition of stop, control, remediation and abandonment orders. The costs arising from compliance with such laws, regulations and guidelines may be material to AKITA. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes and the use and handling of chemical substances. These restrictions and limitations have increased operating costs for both AKITA and AKITA's customers. Any regulatory changes that impose additional environmental restrictions or requirements on AKITA or AKITA's customers could adversely affect AKITA through increased operating costs or decreased demand for AKITA's services.

Certain general oilfield related activities have been controversial. During 2011, development of oil sands, the use of hydraulic fracturing on sedimentary rock formations and development or expansion of crude oil and natural gas pipelines each encountered opposition. Ongoing delays or cancellation of these types of activities would potentially reduce demand for AKITA's services.

While AKITA maintains liability insurance, including insurance for environmental claims, there can be no assurance that insurance will continue to be available to AKITA on commercially reasonable terms, that the possible types of liabilities that may be incurred by AKITA will be covered by AKITA's insurance, or that the dollar amount of such liabilities will not exceed AKITA's policy limits. Even a partially uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on AKITA's business, results of operations and prospects.

AKITA manages its risks by:

- having the risk management committee deliberate periodically to assess, evaluate and develop a plan to deal with the risk conditions for the Company;
- developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures;
- emphasizing 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;
- maintaining a low cost structure for the Company, including limited use of financial leverage;
- obtaining multi-year rig contracts whenever possible, but especially when tailoring rig construction or reconfiguration to customer demand;
- 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; and
- developing and maintaining a succession plan to provide for a smooth transition in the event of key personnel turnover.

Future Outlook and Strategy

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.

Management believes that pad drilling, which has led the market during recent years, will continue to be the most profitable aspect of AKITA's business in the short and medium term, and potentially beyond. AKITA began 2011 with 11 pad rigs. During the year, AKITA converted one of its arctic rigs into a pad rig suitable for drilling up to 4,000 metres for either heavy oil or shale gas prospects. The Company also added one new pad rig suitable for SAGD drilling in the oil sands. Additionally, AKITA added a moving system to one of its conventional doubles to enhance its marketability to drill for heavy oil. Consequently, at the end of 2011, AKITA had 14 pad rigs. At year-end, the Company was retrofitting a conventional triple into a heavy oil pad rig for delivery in early 2012.

Demand is expected to continue to be strong for conventional heavy capacity double sized rigs and light to medium capacity triple sized rigs. The Company has five rigs that are suitable for this market.

AKITA has been active in potash related drilling for the past five years. The Company had three of its rigs drilling on potash programs from time to time during 2011. At this time, the prospects for continued potash drilling are positive, and potential exists for the Company to invest additional resources to expand its presence in this niche.

Demand for shallow capacity rigs improved significantly in 2011, compared to 2010. Demand for this class of rig is highly seasonal and the current 2012 winter season has once again shown a strong level of demand. Management is hopeful that demand after break-up for this class of rig will be comparable to the corresponding period in 2011. AKITA has nine rigs in this category.

Opportunities for deep and ultra-deep conventional rigs improved during 2011 as a result of drilling for liquids rich natural gas formations. This class of rig typically maintains well control equipment and has hoisting capacities that are greater than on smaller rigs. Prospects appear positive for steady work in this rig category for the current winter season and potentially beyond. AKITA has five rigs in this category.

On November 8, 2011, the Canadian Association of Oilfield Drilling Contractors released its 2012 industry drilling forecast estimating the drilling of 12,672 wells, compared to 16,148 wells completed in 2011. The 2012 forecast was based upon commodity price assumptions of US $88 per barrel for crude oil and CAD $4.00 per mcf for natural gas. In addition to the number of wells drilled, horizontal and other more complex drilling applications affect the drilling days per well, thereby impacting the actual utilization rates for both AKITA and industry rigs. Although winter drilling activity to date has been strong and appears to support this forecast, management remains cautious regarding post break-up activity given the continuing natural gas price weakness and no clear signal of improvement.

During 2007, the Company commenced a long-term contract with a private corporation to provide drilling services with one of its new heavy oil pad rigs. This contract completed its initial term in 2011 and was renewed for an additional year.

During 2008, the Company entered into long-term contracts with a large corporation for the provision of two of its existing rigs. Retrofits took place in order to convert these rigs into self-moving pad configurations. Both rigs commenced work under four-year contracts in 2009.

During 2010, the Company entered into a long-term contract with a major corporation to convert one of its existing rigs into a self-moving pad configuration. A retrofit took place and the rig commenced work in 2011. The Company also entered into a long-term contract with another large corporation to provide drilling services with a new heavy oil pad rig. This rig commenced work in 2011.

During 2011, the Company entered into a new long-term contract with a major corporation to convert one of its existing rigs into a self-moving pad configuration. A retrofit took place and the rig commenced work in the fourth quarter of 2011.

Since year-end AKITA has been awarded contracts to construct two rigs for two major operators. Each of these rigs is associated with a multi-year contract.

The Company remains well positioned in terms of drilling potential for shallow and deep natural gas, heavy and conventional crude oil and to take advantage of any increasing activity in Northern Canada. Further, AKITA has successfully demonstrated its ability to convert conventional rigs into pad configurations. AKITA's strategy over the past years has been to develop equipment and key relationships to effectively target specific market opportunities.

Recent Accounting Pronouncements

IFRS 9 (Financial Instruments) addresses classification and measurement of financial assets that will replace IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise, it is measured at fair value through profit and loss. The standard was updated to include guidance on financial liabilities and derecognition of financial instruments. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IAS 1 (Presentation of Financial Statements) was amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit and loss in the future. This change is effective for years beginning on or after July 1, 2012.

IAS 19 (Employee Benefits) was amended to reflect (i) significant changes to recognition and measurement of defined benefit pension expense and termination benefits, and (ii) expanded disclosure requirements. This change is effective for years beginning on or after January 1, 2013.

IFRS 13 (Fair Value Measurement and Disclosure) provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. This standard is effective for years beginning on or after January 1, 2013.

IFRS 10 (Consolidated Financial Statements) replaces the guidance on control and consolidation in IAS 27 (Consolidated and Separate Financial Statements) and SIC-12 (Consolidation – Special Purpose Entities). IFRS 10 changes the

definition of control under IFRS so that the same criteria are applied to all entities to determine control. This standard is effective for years beginning on or after January 1, 2013.

IFRS 11 (Joint Arrangements) replaces IAS 31 (Interests in Joint Ventures). IFRS 11 reduces the type of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled assets and jointly controlled operations under IAS 31. This standard is effective for years beginning on or after January 1, 2013.

IFRS 12 (Disclosure of Interests in Other Entities) sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found under IAS 28 (Investment in Associates). This standard is effective for years beginning on or after January 1, 2013.

IAS 27 is renamed "Separate Financial Statements" and deals solely with separate financial statements, the guidance for which remains unchanged. This standard is effective for years beginning on or after January 1, 2013.

The Company has not yet concluded its assessment of the impact of the foregoing standards.

Disclosure Controls and Internal Controls Over Financial Reporting

As of December 31, 2011, the Company's management evaluated the effectiveness of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer.

Disclosure Controls and procedures are controls and other procedures designed to provide reasonable assurance 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 President and 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 President and 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 President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that 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 well as other continuous disclosure documents filed by the Company.

As of December 31, 2011, the management of the Company evaluated the effectiveness of internal control over financial reporting ("Internal Control Over Financial Reporting"), as defined under rules adopted by the Canadian Securities

Administrators. This evaluation is performed under the supervision of, and with the participation of, the President and 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.

Based on this evaluation, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that the Company's Internal Control Over Financial Reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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, 2011 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 crude oil prices, 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 13, 2012. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2011 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.

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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 International Financial Reporting Standards (also referred to as "IFRS") 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 benefit pension liability and assumptions around deferred income tax calculations. Financial information throughout this Annual Report is consistent with the consolidated financial statements except as noted.

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 IFRS. 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 29.

The Board of Directors, through its Audit Committee comprised of three independent directors as defined in National Instrument 52-110 – Audit Committees ("NI 52-110"), and one director who is exempt from the independence requirements of NI 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.

Karl A. Ruud
President and Chief Executive Officer

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

Independent Auditors' Report

To the Shareholders of AKITA Drilling Ltd.

We have audited the accompanying consolidated financial statements of AKITA Drilling Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AKITA Drilling Ltd. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 13, 2012

Consolidated Statements of Financial Position

$Thousands in CDN$		December 31, 2011	December 31, 2010 Restated [1]	January 1, 2010 Restated [1]
Assets				
Current Assets				
Cash and cash equivalents	Note 5	$ 18,228	$ 37,964	$ 34,142
Term deposits	Note 6	9,500	10,000	18,000
Accounts receivable	Note 23	48,351	33,339	28,523
Income taxes recoverable		-	-	330
Prepaid expenses and other		413	222	421
		76,492	81,525	81,416
Non-current Assets				
Restricted cash	Note 7	3,000	2,500	5,000
Other long term assets		200	-	-
Investment property	Note 24	626	-	-
Property, plant and equipment	Note 9	166,812	134,562	121,346
Total Assets		$ 247,130	$ 218,587	$ 207,762
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	Note 10	$ 27,550	$ 18,830	$ 10,123
Deferred revenue		146	-	197
Dividends payable		1,262	1,269	1,277
Income taxes payable		3,269	85	-
		32,227	20,184	11,597
Non-current Liabilities				
Deferred income taxes	Note 11	12,264	13,235	12,679
Pension liability	Note 12	1,535	1,429	1,363
Total Liabilities		46,026	34,848	25,639
Shareholders' Equity				
Class A and Class B shares	Note 13	23,308	23,447	23,376
Contributed surplus		2,758	2,512	2,271
Accumulated other comprehensive income		-	50	-
Retained earnings		175,038	157,730	156,476
Total Equity		201,104	183,739	182,123
Total Liabilities and Equity		$ 247,130	$ 218,587	$ 207,762

The accompanying notes are an integral part of these consolidated financial statements.

[1] Comparative financial information for 2010 has been restated for IFRS as per Note 4.

Approved by the Board,

Director

Director

Consolidated Statements of Net Income and Comprehensive Income

$Thousands in CDN$ except per share amounts		Year Ended December 31 2011	2010 Restated [1]
Revenue		$ 199,934	$ 145,138
Costs and expenses			
Operating and maintenance	Note 14	132,520	96,919
Depreciation		20,933	24,540
Selling and administrative	Notes 12 & 14	16,117	13,625
Total costs and expenses		169,570	135,084
Revenue less costs and expenses		30,364	10,054
Other income (losses)			
Interest income		638	798
Interest expense		(23)	(25)
Gain on sale of joint venture interests in rigs and other assets		787	75
Other gains and losses (net)		(4)	30
Total other income		1,398	878
Income before income taxes		31,762	10,932
Income taxes	Note 11	8,409	3,462
Net income for the year attributable to shareholders		23,353	7,470
Other comprehensive income			
Foreign currency translation adjustment		(50)	50
Comprehensive income for the year attributable to shareholders		$ 23,303	$ 7,520

Net Income per Class A and Class B Share	Note 16		
Basic		$ 1.29	$ 0.41
Diluted		$ 1.29	$ 0.41

The accompanying notes are an integral part of these consolidated financial statements.

[1] Comparative financial information for 2010 has been restated for IFRS as per Note 4.

Consolidated Statements of Changes in Shareholders' Equity

$Thousands in CDN$

	Attributable to the Shareholders of the Company						
	Class A Non-Voting Shares (Note 13)	**Class B Common Shares** (Note 13)	**Total Class A and Class B Shares** (Note 13)	**Contributed Surplus**	**Accumulated Other Comprehensive Income** Restated [1]	**Retained Earnings** Restated [1]	**Total Equity** Restated [1]
Balance at January 1, 2010	$ 22,010	$ 1,366	$ 23,376	$ 2,271	$ -	$156,476	$182,123
Net income for the period	-	-	-	-	-	7,470	7,470
Foreign currency translation adjustment	-	-	-	-	50	-	50
Shares repurchased	(209)	-	(209)	-	-	(1,137)	(1,346)
Stock options exercised	280	-	280	-	-	-	280
Stock options charged to expense	-	-	-	241	-	-	241
Dividends	-	-	-	-	-	(5,079)	(5,079)
Balance at December 31, 2010	$ 22,081	$ 1,366	$ 23,447	$ 2,512	$ 50	$157,730	$183,739
Net income for the period	**-**	**-**	**-**	**-**	**-**	**23,353**	**23,353**
Foreign currency translation adjustment	**-**	**-**	**-**	**-**	**(50)**	**-**	**(50)**
Shares repurchased	**(139)**	**-**	**(139)**	**-**	**-**	**(979)**	**(1,118)**
Stock options charged to expense	**-**	**-**	**-**	**246**	**-**	**-**	**246**
Dividends	**-**	**-**	**-**	**-**	**-**	**(5,066)**	**(5,066)**
Balance at December 31, 2011	**$ 21,942**	**$ 1,366**	**$ 23,308**	**$ 2,758**	**$ -**	**$175,038**	**$201,104**

The accompanying notes are an integral part of these consolidated financial statements.

[1] Comparative financial information for 2010 has been restated for IFRS as per Note 4.

Consolidated Statements of Cash Flows

$Thousands in CDN$		Year Ended December 31 2011	2010 Restated [1]
Operating Activities			
Net income		$ 23,353	$ 7,470
Non-cash items included in net income			
Depreciation		20,933	24,540
Deferred income taxes		(971)	556
Expense for defined benefit pension plan		106	66
Stock options charged to expense		246	241
Gain on sale of joint venture interests in rigs and other assets		(787)	(75)
		42,880	32,798
Change in non-cash working capital			
Accounts receivable		(15,012)	(4,816)
Prepaid expenses and other		(191)	529
Accounts payable and accrued liabilities		3,212	3,160
Deferred revenue		146	(197)
		31,035	31,474
Interest paid		(23)	(25)
Income tax expense - non cash		9,380	2,906
Income tax paid		(6,196)	(2,497)
Net cash from operating activities		34,196	31,858
Investing Activities			
Capital expenditures		(48,985)	(32,654)
Change in cash restricted for loan guarantees	Note 7	(500)	2,500
Redemption of term deposits		500	8,000
Proceeds on sale of joint venture interests in rigs and other assets		1,487	213
Net cash used in investing activities		(47,498)	(21,941)
Financing Activities			
Dividends paid		(5,066)	(5,079)
Proceeds received on exercise of stock options		-	280
Repurchase of share capital		(1,118)	(1,346)
Loan commitment fee paid		(200)	-
Net cash used in financing activities		(6,384)	(6,145)
Effect of exchange rate changes on cash and cash equivalents		(50)	50
Increase (decrease) in cash and cash equivalents		(19,736)	3,822
Cash and cash equivalents, beginning of year		37,964	34,142
Cash and Cash Equivalents, End of Year		$ 18,228	$ 37,964

The accompanying notes are an integral part of these consolidated financial statements.

[1] Comparative financial information for 2010 has been restated for IFRS as per Note 4.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and December 31, 2010

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company") provide contract drilling services, primarily to the oil and gas industry. The Company owns and operates 38 drilling rigs (35.075 net) in Canada.

The Company conducts certain rig operations via joint ventures with aboriginal partners whereby rig assets are jointly owned. While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis.

The contract drilling business in which the Company operates is subject to seasonal fluctuations primarily due to weather conditions affecting the ability to move rigs and other heavy equipment. Historically, rig utilization in the first quarter of the calendar year is the highest. Lower activity levels that result from warmer weather which necessitates travel bans on certain public roads characterize the second quarter while the summer drilling season begins when road bans are lifted. Activity builds throughout the fall and peaks during the winter months.

The Company is a limited liability company incorporated and domiciled in Alberta, Canada. The address of its registered office is 900, 311 – 6th Avenue SW, Calgary, Alberta. The Company is listed on the Toronto Stock Exchange.

2. Basis of Preparation and Adoption of IFRS

Basis of preparation

Historically, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these consolidated financial statements. The term "Canadian GAAP", where used, refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including IFRS 1 (First-time Adoption of IFRS). Subject to certain transition elections disclosed in Note 4, the Company has consistently applied the same accounting policies in its opening IFRS Statement of Financial Position as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes. Note 4 discloses the impact of the transition to IFRS on the Company's previously reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of March 13, 2012, the date that the Company's Board of Directors approved the statements.

3. Significant Accounting Policies

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention.

Consolidation

The financial statements of the Company consolidate the accounts of AKITA Drilling Ltd. and its subsidiaries. All inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties ("Venturers") undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the Venturers.

The financial results of the Company's investments in its jointly controlled ventures are included in the Company's results according to the proportionate consolidation method whereby only the Company's share of the assets, liabilities, revenue and expenses are recognized. Unrealized gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in its joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The joint ventures' accounting policies are consistent with the policies described herein.

Revenue recognition

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. On meterage contracts, work in progress is based upon the depth drilled. The receipt of unearned contract revenue is recorded as deferred revenue until the contracted passage of time has occurred or the targeted depth has been realized.

Interest income is recognized on a time-proportion basis using the effective interest method.

Translation of foreign currencies

Functional and presentation currency
Items included in the financial statements of each of the Company's consolidated entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Canadian dollars.

The financial statements of entities that have Functional Currencies different from that of the Company are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate during the period as this is considered a reasonable approximation to actual rates. All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in the Statement of Net Income. If the Company disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's Functional Currency are recognized in the Statement of Net Income and Comprehensive Income.

Financial instruments

Recognition and measurement

The Company's financial assets and liabilities include cash and cash equivalents, term deposits, restricted cash, accounts receivable, and accounts payable and accrued liabilities. The Company's policy is to not hold or issue any derivative financial instruments. Due to the short-term nature of the Company's financial instruments, fair values approximate carrying values unless otherwise stated.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents, term deposits, restricted cash and trade receivables and are included, excepting restricted cash, in current assets due to their short-term nature.

   Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

ii. Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

   Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables and accrued liabilities to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss calculated as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through an allowance account.

The criteria used to determine if there is objective evidence of an impairment loss include:

i. Significant financial difficulty of the obligor;

ii. Delinquencies in interest or principal payments; and

iii. High degree of probability that the borrower will enter bankruptcy or other financial reorganization.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank guaranteed highly liquid short-term investments with original maturities of three months or less.

Term deposits

Term deposits comprise bank guaranteed highly liquid short-term investments held for greater than three months.

Accounts receivable

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less a provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence the Company will not be able to collect all amounts due according to the original terms of the receivables.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, if any.

Cost includes expenditures directly attributable to the acquisition of the item. The cost of assets constructed by the Company includes the cost of all materials and services used in the construction and direct labour on the project. Costs cease to be capitalized as soon as the asset is ready for productive use. Subsequent costs associated with equipment upgrades that result in increased capabilities or performance enhancements of property, plant and equipment are capitalized. Costs incurred to repair or maintain property, plant and equipment are charged to expense as incurred. The carrying amount of a replaced asset is derecognized when replaced.

Depreciation is provided on property, plant and equipment and leasehold improvements excluding land. Depreciation methods and rates have been selected so as to amortize the net cost of each asset over its expected useful life to its estimated residual value.

Drilling rigs are depreciated using the unit of production method. Depreciation is calculated for each of the rig's major components resulting in an average useful life of 3,600 operating days per rig. Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner. Drilling rigs are subject to certain minimum annual depreciation.

Major inspection and overhaul expenditures are depreciated on a straight-line basis over 3 years.

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.

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

Impairment of property, plant and equipment

Assets that are subject to depreciation are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have an indefinite useful life are not subject to amortization and are tested for impairment annually.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use, being the present value of the expected future cash flows of the relevant assets or cash generating units. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (Cash Generating Units). The Cash Generating Units for the Company's drilling rigs are conventional singles, conventional doubles, conventional light triples, conventional heavy triples and pad rigs.

Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the Company's Board of Directors approves the dividends.

Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The provision's increase in each period reflecting the passage of time is recognized as a finance cost.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Income taxes

Income taxes comprise current and deferred tax. Income tax is recognized in the Statement of Net Income and Comprehensive Income except to the extent that it relates to items recognized directly in equity in which case the income tax is also recognized directly in equity. Current taxes are calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Current taxes for current and prior periods are recognized as liabilities (or assets) to the extent that they are unpaid (or refundable).

The Company records deferred 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 at the balance sheet date and are

expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current assets or liabilities.

Employee future benefits

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. The Company makes contributions on behalf of these plans to a separate entity and has no legal or constructive obligations to pay further contributions if the plans do not hold sufficient assets to pay all employees benefits relating to employee service in current or prior periods.

Contributions to the Company defined contribution plan and the group RRSP are recognized as employee benefit expense when they are due.

The Company has also established a defined benefit pension plan for certain employees. The defined benefit plan, which provides for pensions based upon the age of the retiree at the date of retirement, is non-contributory and unfunded. Actuarial valuation of the defined benefit plan is carried out annually or if circumstances change.

The liability recognized on the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognized actuarial gains and losses. The cost of defined benefit plans is determined using the projected unit credit method. The defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality Canadian denominated corporate bonds that have terms to maturity approximating the terms of the related pension liability. Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are amortized to income over the expected remaining service lifetime of each individual on a straight-line basis.

Share capital

Class A Non-Voting and Class B Common shares are classified as equity. Incremental costs attributable to the issue of new shares or options are shown directly in equity as a deduction, net of any income tax effects. Shares repurchased by the Company are recorded as a reduction of shareholders' equity based upon the consideration paid, including any directly incremental costs, net of income taxes. All shares repurchased by the Company are cancelled upon repurchase.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income for the period attributable to equity owners of the Company by the weighted average number of Non-Voting and Common shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of Class A and Class B shares outstanding to assume conversion of all dilutive potential Class A shares, typically stock options granted to directors and employees. The calculation is performed for the stock options to determine the number of shares that could have been acquired at fair value (determined as the average quarterly or annual, as appropriate, market share price of the Company's outstanding Class A shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of stock options.

Stock-based compensation plans

The Company has two stock-based compensation plans. Stock options are accounted for in accordance with IFRS 2 (Share-based Payments) and qualify as equity settled share-based payments. Share appreciation rights (“SARs”) qualify as a cash settled share-based payment plan under IFRS 2. For both stock-based compensation plans, associated services received are measured at fair value and are calculated by multiplying the number of options, or SARs, expected to vest with the fair value of one option, or SAR, as of the grant date.

Subject to the approval of the Company’s Board of Directors, the Company’s Corporate Governance, Nomination, Compensation and Succession Committee may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting shares.

The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of the grant. Each tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using either the Binomial or the Black Scholes option pricing model. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

In addition to stock options, 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.

The fair value of the services received is recognized as selling and administrative expense. In the case of equity settled share-based payment plans, the selling and administrative expense results in a corresponding increase in shareholders’ equity over the vesting period of the respective plan. For cash settled share-based payment plans, a corresponding liability is recognized. The fair value of the cash settled share-based payment plan is remeasured at each balance sheet date through the Statement of Net Income until settlement.

Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements as well as the reported amounts for revenue and expenses during the period. Estimates and judgments are continually evaluated and are based upon historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Actual outcomes could differ materially from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to:

- estimates relating to transactions and operations that were incomplete at the balance sheet date;
- the useful lives of drilling rigs and other assets;
- projections of the drilling rigs’ discounted future cash flows for use in assessing rig asset impairment conditions;
- measurement of the defined benefit pension liability;
- assumptions regarding the deferred income tax calculation; and
- assumptions regarding the continuing vs. discontinued nature of its operations.

Change in accounting estimate

During the first quarter of 2011, the Company analyzed historical use patterns for its fleet and consequently changed its estimate of useful lives of its rigs. Previously, most of the Company's rigs were depreciated over 2,000 operating days per rig while selected rigs were depreciated over 3,600 operating days. Effective January 1, 2011, the Company began depreciating all of its rigs over an average useful life of 3,600 operating days per rig.

Concurrent with the change in estimate for useful lives of rigs, the Company changed its estimates for salvage values for its rigs. Previously, salvage values were set between $50,000 and $300,000 per rig. Effective January 1, 2011, the Company is applying salvage values equal to 20% of the original cost of each rig.

As a result of these two foregoing changes in accounting estimate, depreciation expense decreased by $6,867,000 in 2011. Since depreciation is based on usage, it is impracticable to estimate the amount of these changes in future periods until they occur.

4. Transition to IFRS

Application of IFRS 1

In preparing its opening IFRS Statement of Financial Position and comparative information for 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. A reconciliation and explanation of how the transition from Canadian GAAP to IFRS affected the Company's financial position, financial performance and cash flows is described in the following notes and tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1, which provides for certain optional exemptions and mandatory exceptions from full retrospective application of IFRS. In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the following IFRS optional exemptions and mandatory exceptions.

IFRS exemptions

1. **Fair value as deemed cost** - The Company has elected to use fair value as deemed cost for certain of its property, plant and equipment on the transition date of January 1, 2010 thereby reducing the opening balances of property, plant and equipment by $32,578,000, decreasing deferred income tax liability by $8,964,000 and reducing retained earnings by $23,614,000.

2. **Cumulative translation differences** - Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at transition date. The Company elected to reset its cumulative translation losses of $354,000 to zero in opening retained earnings at its transition date of January 1, 2010.

3. **Employee benefits** - The Company elected to recognize its cumulative actuarial losses of $68,000 in opening retained earnings at the transition date of January 1, 2010 along with an increase in the pension liability of $93,000 and a decrease in deferred income tax liability of $25,000.

4. **Employee benefits** - IAS 19 (Employee Benefits) requires an entity to disclose for the current and four previous annual periods the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and experience adjustments arising on the plan liabilities. The Company elected to disclose these amounts as the amounts are determined for each accounting period prospectively from the date of transition to IFRS.

5. **Borrowing costs** - IAS 23 (Borrowing Costs) requires an entity to capitalize the borrowing costs related to all qualifying assets. The Company elected to avail itself of the transitional provisions of IAS 23 to choose its transition date of January 1, 2010 as the date to apply capitalization of borrowing costs relating to all qualifying assets. Therefore, borrowing costs, if any, prior to January 1, 2010 were expensed.

6. **Share based payments** – The Company has used the IFRS exemption with respect to stock options granted after November 7, 2002, that were vested before the transition date. As a result, the Company has only applied IFRS 2 to equity instruments outstanding at the date of IFRS transition that were granted on or after November 7, 2002, but which had not vested by the date of transition.

IFRS exceptions

1. **Estimates** – In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reconciliations between GAAP and IFRS

The following are reconciliations of the consolidated financial statements previously presented under Canadian GAAP to the consolidated financial statements prepared under IFRS.

i. Statement of Financial Position at date of transition – January 1, 2010;

ii. Statement of Financial Position at December 31, 2010;

iii. Statement of Net Income and Comprehensive Income for the year ended December 31, 2010.

i) STATEMENT OF FINANCIAL POSITION RECONCILIATION

AS AT JANUARY 1, 2010	Canadian	Adjustments				
$Thousands	GAAP	Note a	Note b	Note c	Note d	IFRS
ASSETS						
Current Assets						
Cash and cash equivalents	$ 34,142	$ -	$ -	$ -	$ -	$ 34,142
Term deposits	18,000	-	-	-	-	18,000
Accounts receivable	28,523	-	-	-	-	28,523
Income taxes recoverable	330	-	-	-	-	330
Prepaid expenses and other	421	-	-	-	-	421
	81,416	-	-	-	-	81,416
Non-current Assets						
Restricted cash	5,000	-	-	-	-	5,000
Property, plant and equipment	147,799	(32,578)	-	-	6,125	121,346
	152,799	(32,578)	-	-	6,125	126,346
TOTAL ASSETS	$234,215	$ (32,578)	$ -	$ -	$ 6,125	$207,762
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	$ 10,123	$ -	$ -	$ -	$ -	$ 10,123
Deferred revenue	197	-	-	-	-	197
Dividends payable	1,277	-	-	-	-	1,277
	11,597	-	-	-	-	11,597
Non-current Liabilities						
Deferred income tax	20,041	(8,964)	(63)	-	1,665	12,679
Pension liability	1,131	-	232	-	-	1,363
	21,172	(8,964)	169	-	1,665	14,042
Total Liabilities	32,769	(8,964)	169	-	1,665	25,639
SHAREHOLDERS' EQUITY						
Class A and Class B shares	23,376	-	-	-	-	23,376
Contributed surplus	2,271	-	-	-	-	2,271
Accumulated other comprehensive income	(354)	-	-	354	-	-
Retained earnings	176,153	(23,614)	(169)	(354)	4,460	156,476
Total Equity	201,446	(23,614)	(169)	-	4,460	182,123
TOTAL LIABILITIES AND EQUITY	$234,215	$ (32,578)	$ -	$ -	$ 6,125	$207,762

ii) STATEMENT OF FINANCIAL POSITION RECONCILIATION

AS AT DECEMBER 31, 2010 $Thousands	Canadian GAAP	Adjustments Note a	Note b	Note c	Note d	Note e	IFRS
ASSETS							
Current Assets							
Cash and cash equivalents	$ 37,964	$ -	$ -	$ -	$ -	$ -	$ 37,964
Term deposits	10,000	-	-	-	-	-	10,000
Accounts receivable	33,339	-	-	-	-	-	33,339
Prepaid expenses and other	222	-	-	-	-	-	222
	81,525	-	-	-	-	-	81,525
Non-current Assets							
Restricted cash	2,500	-	-	-	-	-	2,500
Property, plant and equipment	158,625	(32,578)	-	-	8,237	278	134,562
	161,125	(32,578)	-	-	8,237	278	137,062
TOTAL ASSETS	$242,650	$ (32,578)	$ -	$ -	$ 8,237	$ 278	$218,587
LIABILITIES							
Current Liabilities							
Accounts payable and accrued liabilities	$ 18,830	$ -	$ -	$ -	$ -	$ -	$ 18,830
Income taxes payable	85	-	-	-	-	-	85
Dividends payable	1,269	-	-	-	-	-	1,269
	20,184	-	-	-	-	-	20,184
Non-current Liabilities							
Deferred income tax	20,140	(8,964)	(63)	(196)	2,242	76	13,235
Pension liability	1,229	-	200	-	-	-	1,429
	21,369	(8,964)	137	(196)	2,242	76	14,664
Total Liabilities	41,553	(8,964)	137	(196)	2,242	76	34,848
SHAREHOLDERS' EQUITY							
Class A and Class B shares	23,447	-	-	-	-	-	23,447
Contributed surplus	2,512	-	-	-	-	-	2,512
Accumulated other comprehensive income	(500)	-	-	550	-	-	50
Retained earnings	175,638	(23,614)	(137)	(354)	5,995	202	157,730
Total Equity	201,097	(23,614)	(137)	196	5,995	202	183,739
TOTAL LIABILITIES AND EQUITY	$242,650	$ (32,578)	$ -	$ -	$ 8,237	$ 278	$218,587

iii) STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME RECONCILIATION

FOR THE YEAR ENDED DECEMBER 31, 2010		Adjustments					
$Thousands	Canadian GAAP	Note b	Note c	Note d	Note e	Note f	IFRS
REVENUE	$111,131	$ -	$ -	$ -	$ -	$ 34,007	**$145,138**
Costs and expenses							
Operating and maintenance	69,162	-	-	(6,057)	-	33,814	**96,919**
Depreciation	20,873	-	-	3,945	(278)	-	**24,540**
Selling and administrative	13,464	(32)	-	-	-	193	**13,625**
Total costs and expenses	103,499	(32)	-	(2,112)	(278)	34,007	**135,084**
Revenue less costs and expenses	7,632	32	-	2,112	278	-	**10,054**
Other income (losses)							
Interest income	798	-	-	-	-	-	**798**
Interest expense	(25)	-	-	-	-	-	**(25)**
Other gains and losses (net)	105	-	-	-	-	-	**105**
Total other income	878	-	-	-	-	-	**878**
Income before income taxes	8,510	32	-	2,112	278	-	**10,932**
Income taxes	2,809	-	-	577	76	-	**3,462**
NET INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	5,701	32	-	1,535	202	-	**7,470**
Other comprehensive income							
Cumulative translation adjustment	(146)	-	196	-	-	-	**50**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	$ 5,555	$ 32	$ 196	$ 1,535	$ 202	$ -	**$ 7,520**

GAAP to IFRS Financial Statement Adjustments

The following explains the IFRS required and other adjustments to the Company's Statement of Financial Position, Statement of Net Income and Comprehensive Income, and Cash Flow Statement.

(a) Fair value as deemed cost exemption

The Company elected to measure certain items of property, plant and equipment at the date of transition to IFRS at their fair value and to use that fair value as its deemed cost at January 1, 2010. The Company recognized $23,614,000 as a transitional adjustment in opening retained earnings at the transition date of January 1, 2010, along with reductions of $32,578,000 in property, plant and equipment and $8,964,000 in deferred income tax liability.

(b) Employee benefits

The Company elected to recognize its cumulative actuarial losses of $68,000 and unamortized transitional obligation of $101,000 in opening retained earnings at the transition date of January 1, 2010 along with an increase in its pension liability of $232,000 and a decrease in deferred income taxes of $63,000. The unamortized transitional obligation has been recognized because it would not have arisen had the Company adopted IFRS since inception.

The application of the above adjustment resulted in a $32,000 decrease to selling and administrative expenses and pension liability for the year ended December 31, 2010.

(c) Cumulative translation adjustment (CTA) exemption

The Company elected to reset its cumulative translation losses of $354,000 to zero in opening retained earnings at the transition date of January 1, 2010. An additional related adjustment to cumulative translation gains and losses of $196,000 was recorded for the year ended December 31, 2010.

(d) Capitalization of property, plant and equipment

Under Canadian GAAP, the Company charged major repairs and equipment inspections and certifications to maintenance expense. Under IAS 16 (Property, Plant and Equipment), this change in accounting treatment resulted in:

i. Increases of $6,125,000 to property, plant and equipment, $1,665,000 to deferred income tax liability and $4,460,000 to retained earnings as at January 1, 2010.

ii. A decrease of $6,057,000 to operating and maintenance expense, and increases of $3,945,000 to depreciation expense, $577,000 to deferred income taxes and $2,112,000 to property, plant and equipment for the year ended December 31, 2010.

iii. An increase in net cash provided by operating activities and a decrease in net cash provided by investing activities of $6,057,000 for the year ended December 31, 2010.

(e) Depreciation of property, plant and equipment components

Under Canadian GAAP, the Company charged depreciation to its property, plant and equipment on an "asset-by-asset" basis. When an item of property, plant and equipment comprises individual components for which different methods or rates may be deemed appropriate, IAS 16 requires that assets be depreciated on a "component-by-component" basis. This change in depreciation methodology, along with using fair value as deemed cost for certain items of property, plant and equipment, has resulted in a decrease of $278,000 to depreciation expense with a corresponding increase to property, plant and equipment and an increase to deferred income taxes of $76,000 for the year ended December 31, 2010.

(f) Change in presentation format for cost recovery items

Upon adoption of IFRS, revenue for goods and services provided by the Company to its drilling customers on a cost recovery basis is presented in the Company's Statement of Net Income and Comprehensive Income on a gross basis. These amounts were reported on a net basis under Canadian GAAP. This change has resulted in offsetting increases to revenue, operating and maintenance, and selling and administrative expenses.

5. Cash and Cash Equivalents

$Thousands	December 31 2011	December 31 2010	January 1 2010
Cash	$ 13,293	$ 19,417	$ 26,156
Short-term bank deposits	4,935	18,547	7,986
	$ 18,228	$ 37,964	$ 34,142

Effective interest rate (%) on short-term bank deposits	1.2	1.3	0.6
Average number of days to maturity for short-term bank deposits	30	27	6

6. Term Deposits

$Thousands	December 31 2011	December 31 2010	January 1 2010
Term deposits	$ 9,500	$ 10,000	$ 18,000

Effective interest rate (%) on term deposits	2.0	2.0	2.2
Average number of days to maturity for term deposits	108	317	481

The term deposits are classified as short term as they can be redeemed prior to maturity without penalty.

7. Restricted Cash

$Thousands	December 31 2011	December 31 2010	January 1 2010
Balance held in bank liquid deposit instruments	$ 3,000	$ 2,500	$ 5,000

In the fourth quarter of 2011, the Company guaranteed bank loans made to joint venture partners totaling $2,700,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $3,000,000 with respect to these loans. The Company's security from its partners for these guarantees includes interests in specific rig assets.

During 2007, the Company guaranteed bank loans made to joint venture partners totaling $4,500,000 for a period of four years. The Company had provided an assignment of monies on deposit totaling $5,000,000 with respect to these loans. In the first quarter of 2010, the assignment of monies on deposit was reduced to $2,500,000. In the first quarter of 2011, these loans were paid in full and the related cash amount was no longer restricted.

8. Investments in Joint Ventures

Active Joint Ventures during the Period	Operating Location	Ownership Interest
Akita Wood Buffalo Joint Venture 27	Canada	85%
Akita Wood Buffalo Joint Venture 28	Canada	70%
Akita Wood Buffalo Joint Venture 33	Canada	62.5%
Akita Sahtu Joint Venture 51	Canada	50%
Akita Equtak Joint Venture 60	Canada	50%
Akita Equtak Joint Venture 61	Canada	50%
Akita Equtak Joint Venture 62	Canada	90%
Akita Equtak Joint Venture 63	Canada	50%

Summarized Joint Venture Financial Information

$Thousands	December 31 2011	December 31 2010	January 1 2010
Current assets	$ 8,287	$ 5,575	$ 5,997
Non-current assets	44,460	28,165	32,658
Total Assets	$ 52,747	$ 33,740	$ 38,655
Current liabilities	$2,644	$ 2,040	$2,503
Non-current liabilities	-	-	-
Total Liabilities	$ 2,644	$ 2,040	$ 2,503
Net Assets	$ 50,103	$ 31,700	$ 36,152
Revenue	$ 28,329	$ 21,010	n/a
Expenses	$ 18,231	$ 11,030	n/a
Net Income	$ 10,098	$ 9,980	n/a

9. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at January 1, 2010	$ 4,952	$ 226,616	$ 5,147	$ 236,715
Additions	-	37,472	423	37,895
Disposals	-	(319)	(106)	(425)
Balance as at December 31, 2010	4,952	263,769	5,464	274,185
Additions	61	55,595	1,277	56,933
Disposals/Transfer to Investment Property	(773)	(12,216)	(542)	(13,531)
Balance as at December 31, 2011	**$ 4,240**	**$ 307,148**	**$ 6,199**	**$ 317,587**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at January 1, 2010	$ 875	$ 110,859	$ 3,635	$ 115,369
Disposals	-	(180)	(105)	(285)
Depreciation expense	133	23,661	745	24,539
Balance as at December 31, 2010	1,008	134,340	4,275	139,623
Disposals/Transfer to Investment Property	(147)	(9,095)	(542)	(9,784)
Depreciation expense	125	20,103	708	20,936
Balance as at December 31, 2011	**$ 986**	**$ 145,348**	**$ 4,441**	**$ 150,775**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
As at January 1, 2010	$ 4,077	$ 115,757	$ 1,512	$ 121,346
As at December 31, 2010	$ 3,944	$ 129,429	$ 1,189	$ 134,562
As at December 31, 2011	**$ 3,254**	**$ 161,800**	**$ 1,758**	**$ 166,812**

The Company has $4,846,000 in capital assets that were not being depreciated, as they were under construction as at December 31, 2011 (December 31, 2010 – $19,345,000).

10. Accounts Payable and Accrued Liabilities

$Thousands	**December 31 2011**	December 31 2010	January 1 2010
Trade payables	**$ 8,693**	$ 3,765	$ 1,923
Statutory liabilities	**2,519**	1,865	1,335
Accrued expenses	**16,338**	13,200	6,865
	$ 27,550	$ 18,830	$ 10,123

11. Income Taxes

Income tax expense is comprised of the following:

	Year Ended December 31	
$Thousands	**2011**	2010
Current tax expense	**$ 9,380**	$ 2,906
Deferred tax expense	**(971)**	556
	$ 8,409	$ 3,462

The following table reconciles the theoretical income tax expense using a weighted average Canadian federal and provincial rate of 26.89% (2010 - 28.47%) to the reported tax expense. The rate reduction is due to Canadian federal rate change from 18% in 2010 to 16.5% in 2011. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements, in accordance with IFRS.

	Year Ended December 31	
$Thousands	**2011**	2010
Income before income taxes	**$ 31,762**	$ 10,932
Expected income tax at the statutory rate of 26.89% (2010 – 28.47%)	**8,541**	3,112
Add (Deduct):		
Change in future income tax rates	**(44)**	11
Permanent differences	**115**	123
Jurisdictional rate difference	**6**	276
Other	**(209)**	(60)
Income tax expense	**$ 8,409**	$ 3,462

Deferred income taxes are the result of temporary differences between the carrying amounts of certain assets and liabilities in the financial statements and their tax bases. No portion of deferred income taxes is expected to be recovered within 12 months.

Deferred Income Taxes $Thousands	**Property, Plant and Equipment**	**Employee Pension Benefits**	**Other**	**Total**
Balance as at January 1, 2010	$ 13,081	$ (367)	$ (35)	$ 12,679
Charged/(credited) to statement of net income	108	(18)	466	556
Balance as at December 31, 2010	13,189	(385)	431	13,235
Charged/(credited) to statement of net income	(1,043)	(5)	77	(971)
Balance as at December 31, 2011	**$ 12,146**	**$ (390)**	**$ 508**	**$ 12,264**

12. Pension Liability

The Company obtains an actuarial valuation from an independent actuary subsequent to each year-end or if circumstances change. The most recent evaluation was dated January 19, 2012 and was utilized in measuring the December 31, 2011 balances.

$Thousands	**2011**	2010
Actuarial present value of defined benefit obligation at January 1	**$ 1,592**	$ 1,363
Interest cost	**84**	82
Current service cost	**37**	-
Benefits paid	**(15)**	(15)
Unrecognized actuarial loss	**284**	162
Actuarial present value of defined benefit obligation at December 31	**$ 1,982**	$ 1,592

$Thousands	**December 31 2011**	December 31 2010	January 1 2010
Actuarial present value of defined benefit obligation	**$ 1,982**	$ 1,592	$ 1,363
Amounts not yet recognized in financial statements:			
Unamortized net losses	**(447)**	(163)	-
Accrued pension liability	**$ 1,535**	$ 1,429	$ 1,363

Key Assumptions:

%	**December 31 2011**	December 31 2010	January 1 2010
Discount rate	**4.25**	5.25	6.00

The anticipated retirement age of the plan members is 61 to 65 years (2010 – 61 years). The mortality index is based on the 1994 Uninsured Pensioners Mortality Table projected to 2020 as at December 31, 2010.

The Company's pension expense is recorded in selling and administrative expense and is comprised of the following:

	Year Ended December 31	
$Thousands	**2011**	2010
Expense for defined contribution plan	**$ 3,967**	$ 2,989
Expense for defined benefit plan	**106**	66
	$ 4,073	$ 3,055

13. Share Capital

Authorized:

- An unlimited number of Series Preferred shares, issuable in series, designated as First Preferred Shares, no par value
- An unlimited number of Series Preferred shares, issuable in series, designated as Second Preferred Shares, no par value
- An unlimited number of Class A Non-Voting shares, no par value
- An unlimited number of Class B Common shares, no par value

Issued:

- All issued shares are fully paid

	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)
Shares outstanding at January 1, 2010	16,582,333	$ 22,010	1,654,284	$ 1,366	18,236,617	$ 23,376
Shares repurchased in 2010	(158,104)	(209)	-	-	(158,104)	(209)
Stock options exercised in 2010	52,000	280	-	-	52,000	280
Conversions Class B to Class A shares	400	-	(400)	-	-	-
Shares outstanding at December 31, 2010	16,476,629	$ 22,081	1,653,884	$ 1,366	18,130,513	$ 23,447
Shares repurchased in 2011	(100,208)	(139)	-	-	(100,208)	(139)
Shares outstanding at December 31, 2011	**16,376,421**	**$ 21,942**	**1,653,884**	**$ 1,366**	**18,030,305**	**$ 23,308**

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.

Sentgraf Enterprises Ltd., controlled by Ronald D. Southern owns 1,428,790 Class B Common Shares, which at December 31, 2011 represented 86.4% of the Class B Common Shares. Sentgraf Enterprises Ltd. also owns 4,498,210 Class A Non-Voting Shares, which at December 31, 2011 represented 27.5% of the Class A Non-Voting Shares.

For most of 2011 and 2010, the Company had outstanding normal course issuer bids for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2011, 100,208 shares were repurchased and cancelled under normal course issuer bids at a cost of $1,118,000 of which $139,000 was charged to share capital and $979,000 was charged to retained earnings. In 2010, 158,104 shares were repurchased and cancelled under normal course issuer bids at a cost of $1,346,000 of which $209,000 was charged to share capital and $1,137,000 was charged to retained earnings. The most recent offer will expire on April 14, 2012.

14. Expenses by Nature

The Company presents certain expenses in the consolidated Statement of Net Income and Comprehensive Income by function. The following table presents those expenses by nature:

	Year Ended December 31	
$Thousands	2011	2010
Expenses		
Salaries, wages and benefits	$ 96,302	$ 73,262
Materials and supplies	21,228	14,321
Repairs and maintenance	23,911	16,040
External services and facilities	7,196	6,921
	$ 148,637	$ 110,544
Allocated to:		
Operating and maintenance	$ 132,520	$ 96,919
Selling and administrative	16,117	13,625
	$ 148,637	$ 110,544

15. Stock-based Compensation Plans

The following table summarizes stock options reserved, granted and available for future issuance:

(number of options)	December 31 2011	December 31 2010	January 1 2010
Reserved under current stock option plan	1,700,000	1,700,000	1,700,000
Available for issuance at beginning of period	881,500	1,039,000	1,039,000
Granted during the period	(102,000)	(157,500)	-
Available for future issuance	779,500	881,500	1,039,000

The Company did not have any outstanding SARs during either 2011 or 2010, therefore no corresponding liability is recorded on the balance sheet.

A summary of the status of the Company's stock-based compensation plans as of December 31, 2011 and 2010, and changes during the periods ended on those dates is presented below:

	2011		2010	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Options outstanding at January 1	239,500	9.88	156,000	8.41
Options granted	102,000	10.32	157,500	9.87
Options exercised	-	-	(52,000)	5.40
Options expired	-	-	(22,000)	9.94
Options outstanding at December 31	341,500	10.01	239,500	9.88
Options exercisable at December 31	145,000	9.89	108,000	9.89

The following table summarizes outstanding stock options at December 31:

Vesting Period (Years)	Exercise Price ($)	2011 Number Outstanding	2011 Remaining Contractual Life (years)	2011 Number Exercisable	2010 Number Outstanding	2010 Remaining Contractual Life (years)	2010 Number Exercisable
5	8.405	2,000	0.6	2,000	2,000	1.6	2,000
3	9.940	12,000	1.2	12,000	12,000	2.2	12,000
5	9.940	24,000	1.2	24,000	24,000	2.2	24,000
8	9.940	44,000	1.2	44,000	44,000	2.2	38,500
5	9.870	157,500	8.2	63,000	157,500	9.2	31,500
3	10.320	6,000	9.2	-	n/a	n/a	n/a
6	10.320	96,000	9.2	-	n/a	n/a	n/a
Weighted Average Contractual Life			6.8			6.8	

The Company recorded $246,000 in compensation expense for the year ended December 31, 2011 (2010 - $241,000) as well as corresponding changes to contributed surplus related to stock options. Compensation expense was determined using the Binomial Model based on the following assumptions:

	2011	2010
Risk free interest rate	2.75%	3.09%
Expected volatility	34.6%	34.9%
Dividends yield rate	3.20%	3.30%
Contractual life of options	10 years	10 years
Weighted average fair value	$ 10.32	$ 9.87
Forfeiture rate	0.00%	0.00%

16. Net Income per Share

$Thousands	Year Ended December 31 2011	2010
Net income	$23,353	$ 7,470
Weighted average outstanding shares	18,083,411	18,148,246
Incremental shares for diluted earnings per share calculation	12,200	62
Weighted average outstanding shares for diluted earnings per share	18,095,611	18,148,308
Basic earnings per share ($)	$ 1.29	$ 0.41
Diluted earnings per share ($)	$ 1.29	$ 0.41

17. Dividends per Share

The following table provides a history of dividends over the past two years:

Declaration Date	Payment Date	Per Share ($)	Total ($000's)
March, 2010	April, 2010	0.07	1,275
May, 2010	July, 2010	0.07	1,275
September, 2010	October, 2010	0.07	1,260
November, 2010	January, 2011	0.07	1,269
March, 2011	**April, 2011**	**0.07**	**1,269**
May, 2011	**July, 2011**	**0.07**	**1,267**
August, 2011	**October, 2011**	**0.07**	**1,267**
November, 2011	**January, 2012**	**0.07**	**1,263**

18. Significant Customers

During 2011, two customers (2010 – four 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 these major customers.

19. Segmented Information

The Company operates in one business segment that provides contract drilling services, primarily to the oil and gas industry and in some circumstances to the mining industry. Segment information is provided on the basis of geographic segments as the Company manages its business through two geographic regions – Canada and the United States.

	Canada		United States		Total	
	Year Ended December 31		Year Ended December 31		Year Ended December 31	
$Thousands	**2011**	2010	**2011**	2010	**2011**	2010
Revenue	**$ 199,934**	$ 141,611	**$ -**	$ 3,527	**$ 199,934**	$ 145,138
Costs and expenses	**169,570**	133,957	**-**	1,127	**169,570**	135,084
Operating income	**30,364**	7,654	**-**	2,400	**30,364**	10,054
Other income	**1,398**	878	**-**	-	**1,398**	878
Income taxes	**(8,409)**	(2,478)	**-**	(984)	**(8,409)**	(3,462)
Net income	**$ 23,353**	$ 6,054	**$ -**	$ 1,416	**$ 23,353**	$ 7,470

	Canada		United States		Total	
	December 31		December 31		December 31	
$Thousands	**2011**	2010	**2011**	2010	**2011**	2010
Segment assets	**$ 247,130**	$ 203,751	**$ -**	$ 14,836	**$ 247,130**	$ 218,587
Segment liabilities	**$ 46,026**	$ 34,848	**$ -**	$ -	**$ 46,026**	$ 34,848
Capital assets	**$ 166,812**	$ 128,792	**$ -**	$ 5,770	**$ 166,812**	$ 134,562

20. Related Party Transactions

These transactions were made in the normal course of business with regular payment terms and have been recorded at the amounts agreed upon with the related parties.

a. ATCO Group and Spruce Meadows

The Company is related to the ATCO Group of companies and to Spruce Meadows through its majority shareholder (see Note 13). The accompanying table summarizes transactions and period balances with those affiliates.

	Year Ended December 31	
$Thousands	**2011**	2010
Revenue (computer services, rent)	**$ 44**	$ 30
Purchases		
Property, plant and equipment (wellsite trailers)	**638**	-
Operating (sponsorship and advertising (Note 21), other)	**367**	481
Year end accounts receivable	**-**	3
Year end accounts payable	**-**	144

b. Joint Ventures

The Company is related to its joint ventures. The accompanying table summarizes transactions and period balances with the joint ventures.

	Year Ended December 31	
$Thousands	**2011**	2010
Revenue	**$ 151**	$ 82
Operating costs	**3,935**	4,150
Selling and administrative costs	**624**	469
Year end accounts payable	**2,272**	1,830

c. Legal fees

The Company incurred legal fees of $86,000 (December 31, 2010 - $42,000) during the year for services related to various legal matters with a law firm of which a director of the Company was a partner at December 31, 2011. These transactions were made in the normal course of business with regular payment terms and have been recorded at the amounts agreed upon with the related parties. At December 31, 2011, $38,000 (December 31, 2010 - $Nil) of this amount was included in accounts payable.

d. Key management compensation

Key management includes the officers and directors of the Company. The compensation paid or payable to key management is shown below:

	Year Ended December 31	
$Thousands	**2011**	2010
Salaries, directors fees and other short-term benefits	**$ 3,371**	$ 2,794
Post-employment benefits	**221**	162
Share-based payments	**471**	611
Year end compensation payable	**1,380**	907

21. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2011, the Company had nine rigs with multi-year contracts including one for a rig currently under construction. Of these contracts, one is anticipated to expire in 2012, five in 2013 and three in 2014.

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 $1,300,000. These contracts have been extended and include annual costs of $325,000 for 2011 (2010 - $325,000).

The Company leases its office space at an annual cost of approximately $362,000 per year. This lease expires on December 31, 2014.

At December 31, 2011, the Company had capital expenditure commitments of $531,000 (2010 – 10,749,000).

22. Capital Disclosures

Capital management

The Company has determined capital to include long-term debt and share capital. The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to augment existing resources in order to meet growth requirements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, issue new shares or sell assets.

23. Financial Instruments

Operating Loan Facility

For all of 2010 and most of 2011, the Company did not have a bank operating loan or other lending facility. In the fourth quarter of 2011, the Company established an operating loan facility totaling $50,000,000 with an initial five year term with its principal banker. The interest rate on the facility varies based upon the actual amounts borrowed, but ranges from 0.4% to 1.4% over prime interest rates or 1.4% to 2.4% over guaranteed notes, depending on the preference of the Company. The Company did not access this facility during the year.

Financial Instrument Risk Exposure and Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, foreign currency risk, and liquidity risk. In addition, the Company is indirectly exposed to interest rate risk since the Company is typically non-borrowing and is directly exposed to fluctuations in interest rates through its investment in bank guaranteed highly liquid investments. The Company is also indirectly exposed to commodity risk relating to commodity prices due to the industry in which it works.

Credit Risk

The credit risk associated with accounts receivable is generally considered low since substantially all counterparties are well-established and financed oil and gas companies. The Company has detailed credit-granting procedures and in certain circumstances may require customers to make advance payment prior to the provision of services or take other

measures to help reduce credit risk. Management has estimated provisions to recognize potential impairments, which have been included in the accounts.

The Company's accounts receivable shows no significant credit risk exposure in the balances outstanding at December 31:

$Thousands	December 31 2011	December 31 2010
Within 30 days	$ 33,009	$ 23,027
31 to 60 days	12,661	8,508
61 to 90 days	2,772	1,846
Over 90 days	7	44
Allowance for doubtful accounts	(98)	(86)
Accounts receivable	$ 48,351	$ 33,339

Terms of the Company's contracts generally require payment within 30 days.

Foreign Currency Risk

The Company is exposed to changes in foreign exchange rates as revenues, capital expenditures, or financial instruments may fluctuate due to changing rates. At December 31, 2011, AKITA's exposure was limited substantially to its operations in the United States, which constituted 0% of its total revenue (2010 – 2%).

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2011 and December 31, 2010, this risk was limited due to having cash and term deposit balances in excess of total current liabilities.

24. Investment Property

During 2011, the Company commenced a lease of property resulting in a transfer from property, plant and equipment to investment property. The Company is applying the cost model with the investment property's carrying value of $626,000. The carrying value approximates the fair value of the investment property. The most recent fair value assessment of the investment property was effective January 1, 2010. The Company recognized $14,000 in other gains and losses from lease revenue for 2011 (2010 –$Nil).

The investment property consists of land and land improvements. The land improvements are depreciated on a 5% declining balance basis.

25. Accounting Standards Issued But Not Yet Applied

IFRS 9 (Financial Instruments) addresses classification and measurement of financial assets that will replace IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise, it is measured at fair value through profit and loss. The standard was updated to include guidance on financial liabilities and derecognition of financial instruments. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IAS 1 (Presentation of Financial Statements) was amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on

whether or not they may be recycled to profit and loss in the future. This change is effective for years beginning on or after July 1, 2012.

IAS 19 (Employee Benefits) was amended to reflect (i) significant changes to recognition and measurement of defined benefit pension expense and termination benefits, and (ii) expanded disclosure requirements. This change is effective for years beginning on or after January 1, 2013.

IFRS 13 (Fair Value Measurement and Disclosure) provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. This standard is effective for years beginning on or after January 1, 2013.

IFRS 10 (Consolidated Financial Statements) replaces the guidance on control and consolidation in IAS 27 (Consolidated and Separate Financial Statements) and SIC-12 (Consolidation – Special Purpose Entities). IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. This standard is effective for years beginning on or after January 1, 2013.

IFRS 11 (Joint Arrangements) replaces IAS 31 (Interests in Joint Ventures). IFRS 11 reduces the type of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled assets and jointly controlled operations under IAS 31. This standard is effective for years beginning on or after January 1, 2013.

IFRS 12 (Disclosure of Interests in Other Entities) sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found under IAS 28 (Investment in Associates). This standard is effective for years beginning on or after January 1, 2013.

IAS 27 is renamed “Separate Financial Statements” and deals solely with separate financial statements, the guidance for which remains unchanged. This standard is effective for years beginning on or after January 1, 2013.

The Company has not yet concluded its assessment of the impact of the foregoing standards.

10 Year Financial Review

(Dollars in thousands, except per share)	Annual Ranking	2011	2010	2009
Summary of Operations				
Revenue	1	$199,934	$145,138	$106,263
Income before income taxes	4	$31,762	$10,932	$11,901
Income taxes	6	$8,409	$3,462	$3,521
Net income	3	$23,353	$7,470	$8,380
As a percentage of average shareholders' equity	6	12.1%	4.1%	4.2%
Earnings per Class A and Class B share	3	$1.29	$0.41	$0.46
Funds flow from continuing operations	2	$42,880	$32,798	$23,960
As a percentage of average shareholders' equity	6	22.3%	17.9%	12.0%
Financial Position at Year End				
Working capital	7	$44,265	$61,341	$69,819
Current ratio	9	2.37:1	4.04:1	7.02:1
Total assets	1	$247,130	$218,587	$234,215
Shareholders' equity	2	$201,104	$183,739	$201,446
per share	1	$11.15	$10.19	$11.05
Other				
Capital expenditures (Net)	1	$56,933	$37,895	$11,835
Depreciation	2	$20,933	$24,540	$17,476

Note: Financial information has been calculated under Canadian GAAP for the years 2001 to 2009 and under IFRS for the years 2010 and 2011. Readers should be aware that these two sets of accounting standards are not consistent with each other.

2008	2007	2006	2005	2004	2003	2002
$137,246	$141,962	$174,543	$162,110	$135,747	$124,078	$102,895
$20,133	$28,667	$48,129	$44,770	$32,121	$28,678	$23,473
$7,147	$7,525	$14,374	$15,506	$11,246	$9,856	$9,128
$14,847	$20,752	$33,755	$29,264	$20,875	$18,822	$14,345
7.7%	11.5%	21.0%	21.4%	18.3%	19.4%	31.5%
$0.81	$1.14	$1.83	$1.57	$1.15	$1.04	$0.79
$34,149	$37,143	$47,199	$42,421	$33,947	$30,426	$27,459
17.6%	20.6%	29.4%	31.0%	29.7%	31.3%	60.4%
$63,089	$49,123	$56,681	$59,499	$40,414	$24,319	$26,551
3.90:1	3.92:1	2.77:1	2.74:1	2.83:1	1.82:1	2.52:1
$242,869	$223,522	$222,237	$199,852	$162,957	$150,901	$133,901
$198,461	$188,038	$172,873	$148,366	$124,926	$103,590	$90,947
$10.89	$10.29	$9.43	$8.00	$6.70	$5.74	$4.97
$14,622	$33,505	$40,655	$18,386	$15,308	$16,122	($2,061)
$16,667	$15,164	$14,211	$12,691	$11,263	$9,432	$8,819

Corporate Information

Directors

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

Harish K. Mohan
Corporate Director
Calgary, Alberta

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

Karl A. Ruud
President and Chief Executive Officer

Nancy C. Southern
Deputy Chair, 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, Q.C.
Vice Chairman and Managing Partner (Calgary), Bennett Jones LLP
Calgary, Alberta

Charles W. Wilson
Corporate Director
Evergreen, Colorado

Officers

Raymond T. Coleman
Vice President, Operations

Colin A. Dease
Corporate Secretary

Fred O. Hensel
Vice President,
Marketing

Craig W. Kushner
Director of Human Resources

John M. Pahl
Vice President,
Joint Ventures and Business Development

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

Karl A. Ruud
President and Chief Executive Officer

Head Office

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

Banker

Alberta Treasury Branches
Calgary, Alberta

Counsel

Bennett Jones LLP
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

CIBC Mellon Trust Company (Note)
Calgary, Alberta and Toronto, Ontario
1-800-387-0825
Note: Canadian Stock Transfer Company Inc. acts as administrative agent for CIBC Mellon Trust Company

Share Symbol / TSX

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

Website

www.akita-drilling.com

HEAD OFFICE

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