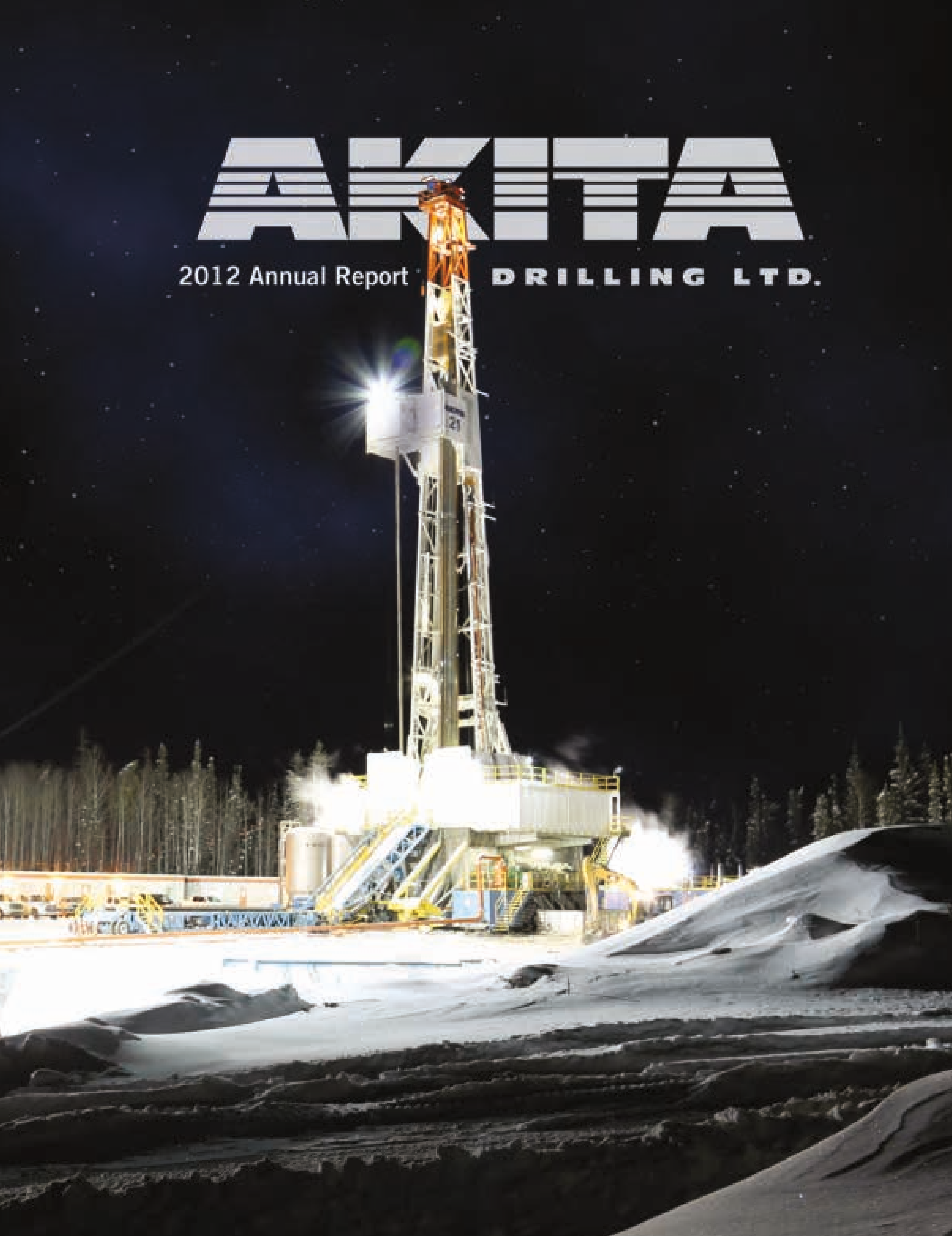
AKITA DRILLING LTD.

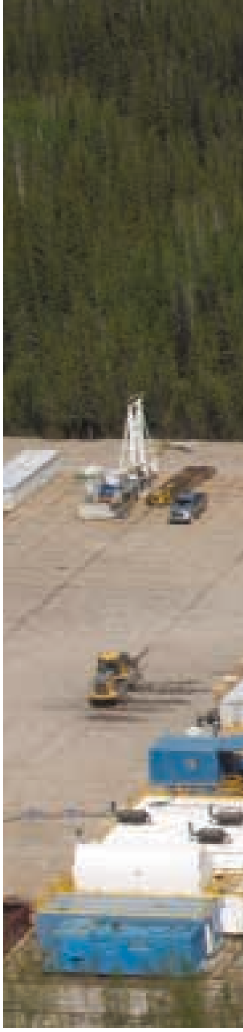
2012 Annual Report



Corporate Profile

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

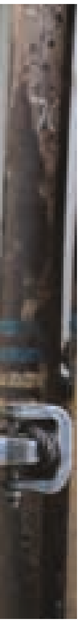
The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in pad and other purpose-built drilling rigs and is active in directional, horizontal and underbalanced 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 39 drilling rigs in all depth ranges.



Contents

Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. on Monday May 15, 2013 at the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.



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 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 in this 2012 Annual Report for AKITA.

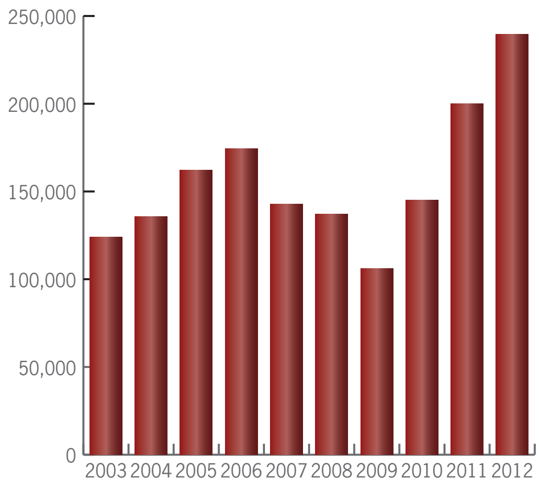
On the cover:
Rig 21, one of AKITA’s pad rigs working in the Peace River area.
Photo credit: F. Biggeman

Above:
Rig 48, drilling multiple wells from the same surface location.
Photo credit: F. Biggeman

Opposite:
AKITA is committed to responsible management of environmental issues and to providing a healthy and safe environment for its employees.
Photo credits: F. Biggeman

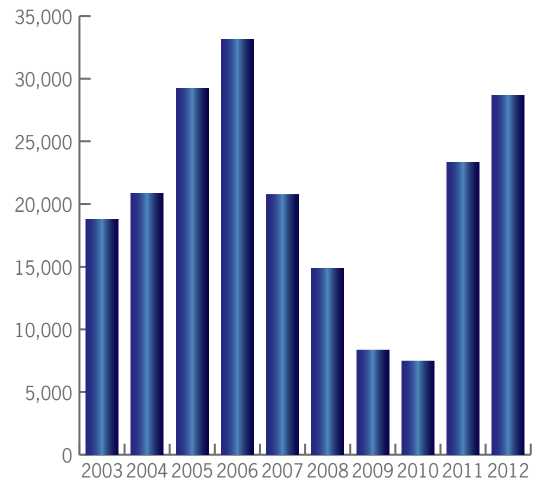
Operational Performance

Revenues
(000's)



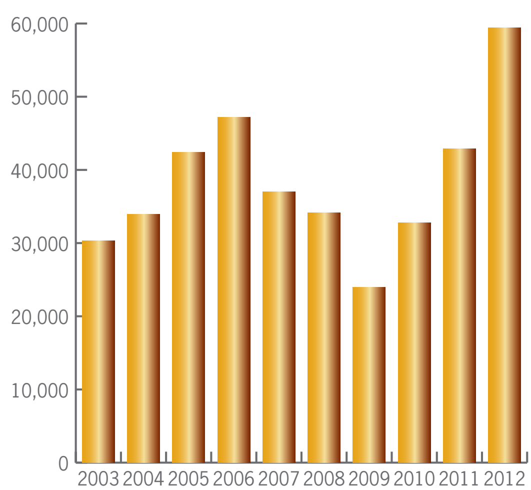
Revenue has grown at a 31% annual compounded rate over the past three years to a $240 Million record level during 2012.

Net Earnings
($000's)



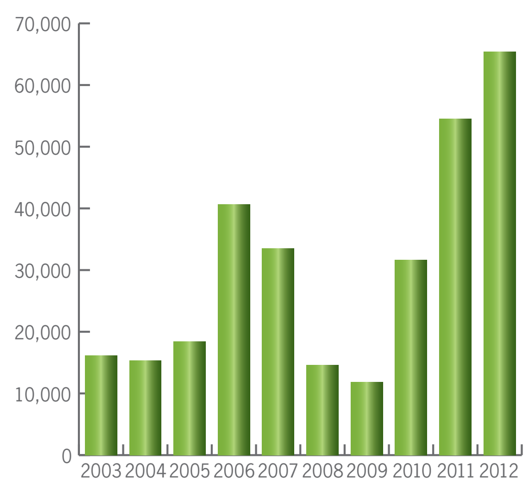
Pad drilling rigs made a major contribution to significant back-to-back net earnings improvements.

Funds Flow from Operations
(000's)



At $59.4 Million, funds flow from operations was at a record level during 2012. This was the main funding source for the Company's capital expenditure program.

Capital Expenditures
($000's)



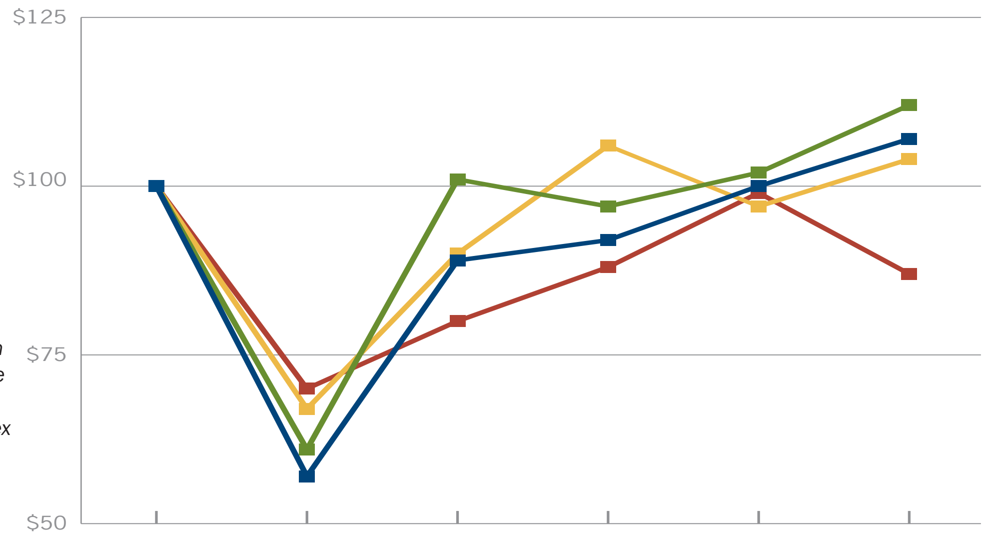
The focus of AKITA's record level capital expenditures in 2012 was the construction of two new pad rigs and the conversion of two conventional triples into pad rigs.

Note: Financial information has been calculated under Canadian GAAP for the years 2003 to 2009 and under IFRS for the years 2010 through 2012. 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, 2007 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 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012
AKITA Class A	100	57	89	92	100	107
AKITA Class B	100	61	101	97	102	112
S&P/TSX Composite Index	100	67	90	106	97	104
TSX Oil & Gas Drilling Sub-Index	100	70	80	88	99	87

Share Performance

		2008	2009	2010	2011	2012
Weighted average number of Class A and Class B shares		18,255,099	18,230,913	18,148,246	18,083,411	17,988,552
Market prices for Class A Shares	High	$ 17.50	$ 12.44	$ 10.71	$ 12.75	$ 11.89
	Low	$ 5.70	$ 5.25	$ 7.15	$ 9.18	$ 9.21
	Close	$ 6.35	$ 9.50	$ 9.50	$ 10.70	$ 10.50
Volume		2,553,765	2,170,740	1,021,031	1,231,978	2,103,087
Market prices for Class B Shares	High	$ 18.20	$ 12.25	$ 11.50	$ 12.65	$ 11.39
	Low	$ 6.65	$ 6.25	$ 8.04	$ 9.80	$ 9.94
	Close	$ 6.65	$ 10.76	$ 10.00	$ 10.25	$ 11.00
Volume		7,051	14,049	13,268	14,436	16,883

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.

	2008	2009	2010	2011	2012
Dividends paid per share ($)	0.28	0.28	0.28	0.28	0.28

Letter to the Shareowners

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
Chief Executive Officer

Net income for the year ended December 31, 2012 was $28,703,000 or $1.60 per share (basic and diluted) on revenue of $239,654,000.

Comparative figures for 2011 were $23,353,000 or $1.29 per share (basic and diluted) on revenue of $199,934,000. Funds flow from operations for the current year was $59,412,000 as compared to $42,895,000 in 2011, while net cash from operating activities for 2012 was $55,605,000 as compared to $34,196,000 in 2011. AKITA achieved record revenue, funds flow from operations and net cash from operating activities in 2012.

AKITA's rig utilization rate has traditionally been higher than the industry average and 2012 was no exception. Although conventional rig activity was negatively affected by low natural gas prices and waning hydrocarbon liquids prices, pad rigs consistently achieved utilization that confirmed this category of assets as AKITA's most highly sought after rig class. To date, AKITA's heavy oil pad rigs have not been negatively affected by widening differentials in the price of Canadian heavy oil compared to other oil prices. The following table highlights AKITA's utilization rates for the past five years:

The Company's focus on its pad rig strategy included five major rig projects during 2012. Three of these rigs were new, including two rigs under construction at year-end. In addition to the three new rigs, AKITA converted two of its conventional rigs into pad rigs. Each of these rigs operate under multi-year contracts.

One of the newly constructed rigs has been sold to an AKITA customer and will be used to drill potash prospects. AKITA is operating this rig for its customer on a multi-year basis.

AKITA's fleet includes 16 pad drilling rigs. The Company also operates 23 conventional rigs that span all depth ranges. All of the conventional rig classes made meaningful contributions to AKITA's positive financial results during 2012.

AKITA consistently maintains the financial resources to accomplish its capital spending plans. In addition to having $13,285,000 in cash at December 31, 2012,

Rig Utilization Rates

	2012	2011	2010	2009	2008
AKITA Pad Rigs	61.7	67.9	67.4	59.5	46.4
AKITA Fleet	48.3	51.5	37.8	31.1	42.2
Industry	41.6	49.6	40.7	24.6	41.7

the Company has a long-term financing arrangement to provide up to $75,000,000 for capital expenditures and general corporate purposes. As such, the Company has great flexibility to expand its capital program, should appropriate opportunities arise.

AKITA maintains a commitment to safety that permeates all levels of the organization. Since inception, AKITA's annual safety performance has been better than industry averages, and typically far better. In 2012, the Company's lost-time accident frequency was 0.12 accidents per 200,000 hours worked compared to an accident rate of 0.76 for the industry (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors ("CAODC")). This constituted the lowest rate of reportable incidents since AKITA's inception. 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. AKITA dedicates significant resources to ensure that employees receive extensive training to operate safely and efficiently.

On November 13, 2012, the CAODC provided its industry drilling forecast for 2013 estimating the drilling of 10,409 wells, compared to 11,651 wells completed in 2012. The current year estimate was based upon commodity price assumptions of US $86 per barrel for crude oil and CAD $3.44 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 appears to support the CAODC forecast, management remains cautious regarding post-break up drilling activity given commodity price levels, especially the continuing low prices for natural gas with no clear signal of improvement.

Despite the aforementioned modest well forecast, management anticipates that select drilling opportunities will present themselves in the upcoming year. More particularly, many customers have indicated a strong preference for custom drilling solutions which are well suited to AKITA's strengths, especially its pad rig offerings. The Company may or may not be successful in capturing upcoming opportunities.

We wish to acknowledge with thanks the dedicated efforts of AKITA's employees, partners, customers and suppliers, all of whom make an important contribution to the Company's success. We also wish to express our appreciation to the Board of Directors for their thoughtful guidance and wise counsel and to the AKITA Shareowners for their support and confidence in the Company.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

March 5, 2013

Management's Discussion & Analysis

The following sets out management's discussion and analysis ("MD&A") of the consolidated financial position as at December 31, 2012 and 2011, consolidated results of operations, 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, 2012 and 2011. 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 2012 and 2011, including the notes thereto, found on pages 28 - 52, 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 5, 2013 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 financial information is reported in Canadian dollars.

Introduction and General Overview

AKITA is a premier Canadian oil and gas drilling contractor. During 2012, the Company conducted operations in British Columbia, Alberta and Saskatchewan. 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 self-moving pad 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. All of the Company's 39 rigs were located in Western Canada at December 31, 2012.

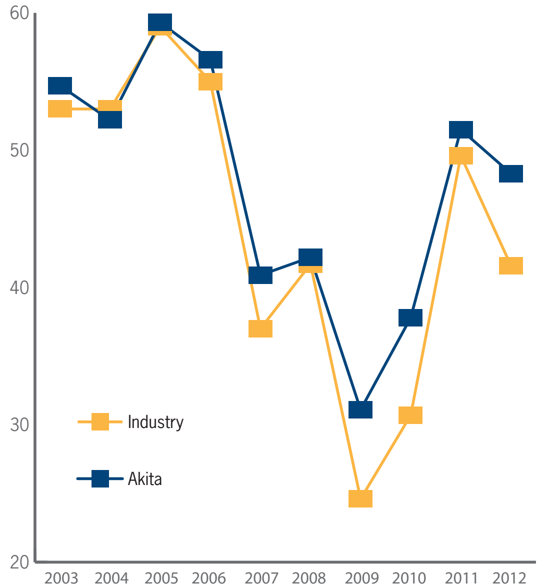
AKITA's growth strategy has focused on constructing new rigs and retrofitting existing rigs in response to specific customer requirements. This strategy enables AKITA to secure long term drilling contracts with customers who request specific rig configurations, and at the same time to either expand or 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 2012, the Company constructed one pad rig to drill for heavy oil. Additionally, the Company completed the conversion of two conventional rigs into pad rigs and commenced the construction of two new pad rigs, one of which was completed shortly after year-end and sold to a third party while the other is expected to become operational early in the second quarter of 2013.

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 declined somewhat in 2012 compared to 2011, as presented in the accompanying chart of rig utilization rates. However, this decline in rig utilization was due to a decline in conventional drilling services only. By contrast, drilling activity increased for AKITA's pad rigs.

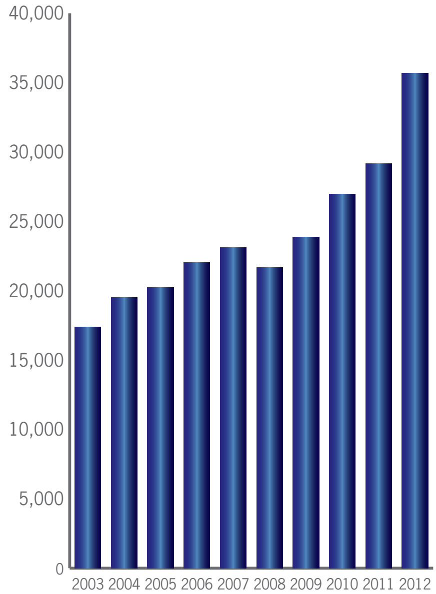
AKITA's revenue per day is increasingly influenced by the number of pad rigs in the Company's fleet. At December 31, 2012, 41% of the Company's rigs were pad rigs, up from 37% at the end of 2011, and up from 8% just ten years earlier.

Revenue per day statistics are included in the following chart:

AKITA's Ten Year Historical Rig Utilization Rates



AKITA's Ten Year Revenue Per Day Statistics



Note: Revenue has been calculated under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for the years 2003 to 2009 and under International Financial Reporting Standards ("IFRS") for the years 2010 to 2012. 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.

Revenue and Operating & Maintenance Expenses

$Million	2012	2011	Change	% Change
Revenue (1)	239.7	199.9	39.8	20%
Operating & maintenance expenses (1)	159.5	132.5	27.0	20%
Operating margin (1)(2)(3)	80.2	67.4	12.8	19%

$Dollars	2012	2011	Change	% Change
Revenue per operating day (3)	35,679	29,166	6,513	22%
Operating & maintenance expenses per operating day (3)	23,739	19,332	4,407	23%
Operating margin per operating day (1)(2)(3)	11,940	9,834	2,106	21%

(1) Revenue, operating & maintenance expenses and operating margin include the Company's rig construction for third parties. AKITA does not disclose its operating margin on rig construction activity separately for competitive reasons.

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

(3) Operating margin, revenue per operating day, operating & maintenance expenses per operating day and operating margin per operating day are non-standard accounting measures. See commentary regarding non-standard accounting measures.

Revenue of $239,654,000 in 2012 was at record levels for AKITA and surpassed the previous year's revenue of $199,934,000. The Company's conventional rigs benefited from stronger market conditions for a portion of 2012: the first quarter for singles and doubles and mainly during the first two quarters for conventional triples. The market for pad rigs, unlike conventional rigs, was strong throughout the year and has increasingly become a focus for the Company. In addition to contract drilling revenue, during 2012, the Company earned revenue from the construction of a pad rig for a third party. During 2012, average revenue per operating day increased to $35,679 per day compared to $29,166 in the comparative year. While each of the aforementioned factors played a role in the increasing revenue per operating day measurement, AKITA's emphasis on pad drilling and construction revenue were the most significant.

Operating and maintenance costs are tied to activity levels and amounted to $159,458,000 or $23,739 per operating day during 2012 compared to $132,520,000 or $19,332 per operating day for the prior year. This increase in total operating and maintenance costs was the result of the change in rig mix including the change in the range of services provided, as well as costs related to earning construction revenue.

The Company's operating margin for 2012 was $80,196,000, up from $67,414,000 in 2011. The operating margin improvement was a combined result of improved profit margins on a "per operating day" basis as well as a contribution from construction activities. On a "per operating day" basis, AKITA's operating margin rose in 2012 to $11,940 from $9,834 in 2011.

In addition to revenue and operating and maintenance costs achieved from drilling activities, the Company earned $17,941,000 in rig construction revenue during 2012 including $6,633,000 during the fourth quarter. The Company does not disclose its construction costs or operating margin separately for this activity for competitive reasons.

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 drilling revenue generated in 2012 and 2011 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 services. In addition, from time to time, the Company records cost recoveries related to capital enhancements for specific customer related projects. At December 31, 2012, deferred revenue related to these activities totalled $2,141,000 (December 31, 2011 - $146,000).

AKITA provided drilling services to 40 different customers in 2012 (2011 - 40 different customers), including two customers that each provided more than 10% of AKITA's revenue for the year (2011 – two customers).

Depreciation and Amortization Expense

$Million	2012	2011	Change	% Change
Depreciation and amortization expense	24.3	20.9	3.4	16%

Drilling rigs are generally depreciated using the unit of production method. Depreciation is calculated for each rig's major components resulting in an average useful life of 3,600 operating days per rig. Major rig renovations are depreciated over the remaining useful life of the related component or to the date of the next major renovation, whichever is sooner. Major rig inspection and overhaul expenditures are depreciated on a straight-line basis over three years.

The increase in depreciation and amortization expense to $24,342,000 during 2012, from $20,933,000 during 2011 was mostly attributable to the higher average cost base for drilling rigs. Drilling rig depreciation accounted for 97% of total depreciation and amortization expense in 2012 (2011 – 96%).

Selling and Administrative Expenses

$Million	2012	2011	Change	% Change
Selling & administrative expenses	19.0	16.1	2.9	18%

Selling and administrative expenses increased to $19,012,000 in 2012 from $16,117,000 in 2011. Selling and administrative expenses equated to 7.9% of total revenue in 2012, compared to 8.1% of total revenue in 2011, as a result of increased revenue. The Company has been expanding its overall support for its drilling services due to increased complexity of the wells that it drills as well as having a sophisticated client base with specialized service demands.

The single largest component of selling and administrative expenses was salaries and benefits which accounted for 60% of these expenses (64% in 2011).

Other Income (Expense)

$Million	2012	2011	Change	% Change
Interest income	0.4	0.6	(0.2)	(33%)
Gain on sale of joint venture interests in rigs and other assets	1.1	0.8	0.3	38%
Other income	1.5	1.4	0.1	7%

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income decreased to $419,000 in 2012 from $638,000 in 2011 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 $1,082,000 in 2012 compared to $787,000 in the previous year. The Company does not anticipate this to be a significant continuing source of regular earnings in the future.

In 2012, the Company conducted all of its operations in Canada, thereby reducing its exposure to foreign currency fluctuations.

Income Tax Expense

$Million, Except Income Tax Rate (%)	2012	2011	Change	% Change
Current tax	2.9	9.4	(6.5)	(69%)
Deferred tax	6.7	(1.0)	7.7	770%
Total income tax expense	9.6	8.4	1.2	14%
Effective income tax rate	25.1%	26.5%		

Income tax expense increased to $9,641,000 in 2012 from $8,409,000 in 2011, due to higher pre-tax income which was partially offset by a reduction in the Canadian federal income tax rate. AKITA's significant capital expenditure program has resulted in a larger proportion of the Company's income tax expense being classified as deferred when compared to the previous year. In addition, during the fourth quarter, the Company received confirmation from the Canada Revenue Agency of the Company's request to accelerate certain deductions that were previously deducted over longer time frames.

Net Income and Cash Flow

$Million	2012	2011	Change	% Change
Net income	28.7	23.4	5.3	23%
Funds flow from operations (1)	59.4	42.9	16.5	38%

(1) See commentary regarding additional GAAP measure

Net income increased to $28,703,000 or $1.60 per Class A Non-Voting and Class B Common Share (basic and diluted) for 2012 from $23,353,000 or $1.29 per share (basic and diluted) in 2011. Funds flow from operations represented record levels for the Company, increasing to $59,412,000 in 2012 from $42,895,000 in 2011.

Net income improvements compared to 2011 were largely as a result of the following factors:

- Strong financial performance from the Company's conventional single and double rigs during the first quarter due to strong market conditions at that time for those rig classes;
- Strong financial performance from the Company's conventional triple rigs during the first two quarters of the year and to a lesser degree in the second half as select operators explored specific deeper shale formations to help determine potential future exploitation programs;
- Strong financial performance from the Company's pad rigs throughout the year; and
- Earnings derived from rig construction activity for sale to a third party. Upon construction completion, which occurred early in 2013, the Company began operating this rig on a multi-year basis.

In addition to the foregoing factors, funds flow from operations increased compared to the previous year as a result of a tax assessment received from the Canada Revenue Agency in response to the Company's request to accelerate certain deductions that were previously deducted over longer time frames.

A reconciliation from funds flow from operations to cash flow from operations is included in the following section of this MD&A.

Additional GAAP Measure

Funds flow from operations is considered an additional GAAP 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 from operating activities 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. The following table reconciles funds flow from operations and cash flow from operations:

$Million	2012	2011	Change	% Change
Funds flow from operations	59.4	42.9	16.5	38%
Change in non-cash working capital	(0.5)	(11.9)	11.4	96%
Current income tax expense	2.9	9.4	(6.5)	(69%)
Income tax paid (net of recoveries)	(6.2)	(6.2)	(0.0)	0%
Cash flow from operations	55.6	34.2	21.4	63%

Non Standard Accounting Measures

Operating margin, revenue per operating day, operating and maintenance expense per operating day and operating margin per operating day are not recognized measures under IFRS. Management and certain investors may find operating margin data to be a useful measurement metric as it provides an indication of the profitability of the business prior to the inclusion of depreciation, overhead expenses, financing costs and income taxes. Management and certain investors may find per operating day measures for revenue and operating margin per operating day provide key indicators of pricing strength while operating and maintenance expense per operating day is an indication of the degree of cost control and a proxy for specific inflation rates being incurred by the Company.

Readers should be cautioned that in addition to the foregoing, other factors, including the mix of rigs between conventional and pad rigs as well as singles, doubles and triples can also impact these results. Readers should also be aware that AKITA includes standby revenue, rig construction revenue and rig construction costs in its determination of per operating day results.

Fleet and Utilization

The following table summarizes rig changes that occurred in 2012:

Fleet Changes during 2012

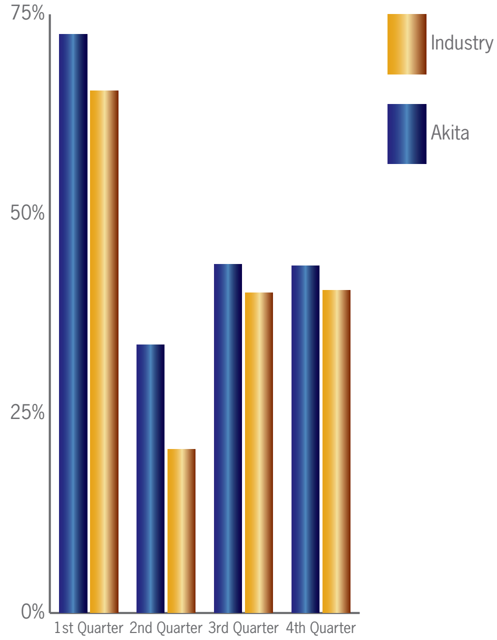
	Gross	Net
Number of rigs at December 31, 2011	38	35.075
Purchase of interest in rig from joint venture partner	0	0.100
Sale of interest in rig to joint venture partners	0	(0.150)
New rig completed during the year	1	0.850
Number of rigs at December 31, 2012	39	35.875

Utilization rates are a key statistic for the drilling industry since they measure revenue volume and influence pricing. During 2012, AKITA achieved 6,717 operating days, which corresponded to a utilization rate of 48.3% compared to an industry average utilization rate of 41.6% during the same period. During the comparative year in 2011, AKITA achieved 6,857 operating days, representing 51.5% utilization. It should be noted that AKITA calculates its utilization rates based only 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 2012 drilling utilization rates compared to the industry average:

Cumulative Quarterly Drilling Rig Utilization Rates



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

Source: Industry data courtesy of 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 surface holes are consecutively drilled, followed by one or more series of intermediate holes and a final series of main holes. 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, 2012

	Conventional Rigs		Pad Rigs	
	Number of Rigs	Percent Utilization	Number of Rigs	Percent Utilization
Singles	9	31.5%	0	N/A
Doubles	9	34.5%	3	70.4%
Triples	5	48.2%	13	65.4%
Total	23	36.5%	16	67.2%

From time to time, the Company enters into drilling contracts for extended terms. At December 31, 2012, AKITA had ten rigs with multi-year contracts that extend into 2013 or beyond. Of these contracts, five are anticipated to expire in 2013, three in 2014, one in 2016 and one in 2018.

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, 2012 there were 838 drilling rigs registered with the CAODC (December 31, 2011 – 807). AKITA's drilling fleet of 39 rigs represented 4.7% of the total Canadian drilling fleet at December 31, 2012 (December 31, 2011 – 4.7%).

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	Annual Totals
2012					
Revenue	**78,774**	**43,784**	**52,111**	**64,985**	**239,654**
Net income	**13,904**	**2,092**	**4,331**	**8,376**	**28,703**
Earnings per share (basic and diluted) ($)	**0.77**	**0.12**	**0.24**	**0.47**	**1.60**
Funds flow from operations	**20,362**	**8,364**	**10,800**	**19,886**	**59,412**
Cash flow from operations	**12,678**	**28,364**	**3,432**	**11,131**	**55,605**
2011					
Revenue	57,444	31,651	54,874	55,965	199,934
Net income	7,952	1,498	6,926	6,977	23,353
Earnings per share (basic and diluted) ($)	0.44	0.08	0.38	0.39	1.29
Funds flow from operations	13,712	3,239	12,825	13,119	42,895
Cash flow from (used in) operations	6,945	15,744	(1,989)	13,496	34,196
2010					
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
Cash flow from (used in) operations	(2,072)	18,058	11,807	4,065	31,858

During the fourth quarter of 2012, rig activity for the Company included 1,533 operating days compared to 1,715 operating days during the corresponding period in 2011. The decline in operating days compared to the corresponding quarter in 2011 was due to a drop in activity for AKITA's conventional doubles and was partially offset by an increase in pad rig operating days. While operating days were lower in the fourth quarter of 2012 compared to the corresponding period, revenue of $64,985,000 ($42,391 per operating day) exceeded fourth quarter 2011 revenue of $55,965,000 ($32,633 per operating day), both on an overall and a "per operating day" basis. The overall revenue and revenue per operating day increases were mainly due to three factors: a higher proportion of pad drilling activity compared to conventional drilling, revenue generated from rig construction for a third party (no comparative activity occurred in 2011) and the receipt of a cancellation premium from an operator that was unable to meet a two-year contract commitment. Operating and maintenance costs, which are also tied to activity levels, increased during the fourth quarter of 2012 to $43,676,000 ($28,491 per operating day) from $38,503,000 ($22,451 per operating day) during the corresponding quarter of 2011. As a result of the foregoing, the operating margin during the fourth quarter of 2012 was $21,309,000 ($13,900 per operating day) compared to $17,462,000 ($10,182 per operating day) during the fourth quarter of 2011.

Net income increased to $8,376,000 or $0.47 per Class A Non-Voting and Class B Common Share (basic and diluted) for the fourth quarter of 2012 from $6,977,000 or $0.39 per share (basic and diluted) in the fourth quarter of 2011. Funds flow from operations increased to $19,886,000 in the fourth quarter of 2012 from $13,104,000 in the corresponding quarter in 2011. The higher net income that occurred in the fourth quarter of 2012 compared to the corresponding quarter in 2011 resulted from an increasing proportion of pad drilling compared to conventional drilling, rig construction activity for a third party and the receipt of a cancellation premium from an operator that was unable to meet a two-year contract commitment. In addition to the foregoing, funds flow from operations was also positively affected due to a tax ruling regarding the timing of deductions for certain purchases made by the Company.

Overall liquidity decreased at December 31, 2012 compared to the corresponding 2011 year-end date by $5,226,000 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 2012 compared to the previous year. AKITA's cash balance decreased $4,943,000 on a year-over-year basis and was $13,285,000 at December 31, 2012 (December 31, 2011 - $18,228,000). The Company did not hold any term deposits at December 31, 2012 (December 31, 2011 - $9,500,000).

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)	2012	2011	2010
Revenue	239,654	199,934	145,138
Net income	28,703	23,353	7,470
Basic earnings per share	1.60	1.29	0.41
Diluted earnings per share	1.60	1.29	0.41
Dividends per Class A Non-Voting and Class B Common share	0.28	0.28	0.28
Funds flow from operations	59,412	42,895	32,798
Net cash from operating activities	55,605	34,196	31,858
Year-end working capital	36,039	44,265	61,341
Year-end other long-term liabilities	20,931	13,799	14,664
Year-end shareholders' equity	223,998	201,104	183,739
Year-end total assets	292,994	247,130	218,587

Liquidity and Capital Resources

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 adheres to an internal capital expenditure discipline that typically restricts capital expenditures to less than 50% of funds flow from operations. The Company has determined that such a level is required to sustain the operations in a manner that maintains or enhances Company equipment standards. In 2012, AKITA's net capital expenditure program of $65,356,000 represented 110% of funds flow from operations, while in 2011, AKITA's net capital expenditure program of $54,509,000 represented 133% of funds flow from operations. In addition to routine capital expenditures, the Company added new rigs in each of 2012 and 2011 as these projects met appropriate hurdle rates to justify this higher level of capital expenditures. 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, 2012, AKITA had $36,039,000 in working capital, including $13,285,000 in cash, compared to $44,265,000 in working capital, including $18,228,000 in cash and $9,500,000 in term deposits, for the previous year. In 2012, AKITA generated $55,605,000 from operating activities. Cash was also generated from redemption of term deposits ($9,500,000), from proceeds on sales of joint venture rigs and other assets ($3,984,000) and from proceeds on exercise of stock options ($18,000). During the same period, cash was used for capital expenditures ($65,356,000), payment of dividends ($5,038,000), repurchasing share capital ($1,091,000), and payment of a loan commitment fee ($140,000).

In 2011, the Company established an operating loan facility with its principal banker totalling $50,000,000, having an initial five year term. This facility was increased to $75,000,000 in the fourth quarter of 2012 and the term was also extended for an additional year. Although the facility has been provided in order to finance general corporate needs, 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 0.45% to 1.45% over prime interest rates or 1.45% to 2.45% over guaranteed notes, depending on the preference of the Company. The Company accessed this facility during the second quarter of 2012 on an interim basis with the borrowed amount being repaid within that quarter.

The Company had outstanding normal course issuer bids throughout most of 2012 and 2011. During 2012, the Company repurchased 104,179 Class A Non-Voting Shares at an average price of $10.48 pursuant to its normal course issuer bid. During 2011, the Company repurchased 100,208 Class A Non-Voting Shares at an average price of $11.16.

In 2009, AKITA renewed its lease for its head office. In 2012, the cost for this lease was $563,000. 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	**1,126**	563	563	Nil	Nil
Purchase obligations	**975**	325	650	Nil	Nil
Capital expenditure commitments	**5,796**	5,796	Nil	Nil	Nil
Pension obligations	**1,942**	Note	Note	Note	Note
Total contractual obligations	**9,839**	6,684	1,213	Nil	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost for year one ranges from $15,000 to $48,000, from year one to three ranges from $30,000 to $98,000, from year four to five ranges from $45,000 to $194,000 with the balance being due after five years in any event.

Property, Plant and Equipment

AKITA's 2012 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 two conventional rigs into pad rigs, added one new pad rig and was continuing with the construction of a second new pad rig, anticipated to be completed in 2013.

Capital expenditures totalled $65,356,000 in 2012. The total cost of the rig construction projects described in the previous paragraph totalled $38,287,000 of this amount. Additional capital expenditures related to rig equipment for existing rigs ($10,085,000), certifications and overhauls having a life in excess of one year ($12,252,000), drill pipe and drill collars ($3,765,000) and other equipment ($967,000). Capital expenditures for 2011 totalled $54,509,000.

During 2012, the Company sold a partial interest in one of its pad rigs to a group of joint venture partners. In addition, it sold two drilling camps, which were considered to be non-core 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 2012 or 2011 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

AKITA is affiliated with the ATCO Group of companies and to Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Operating purchases totalled $401,000 and included sponsorship and advertising ($325,000) and other miscellaneous purchases ($76,000). During 2012, the Company renewed its multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2012, the remaining commitment was $975,000. Costs incurred related to this contract during 2012 were $325,000 (2011 - $325,000). Costs and related services are consistent with parties dealing at arm's length. In addition to operating purchases, the Company purchased well site trailers for its rig operations totalling $688,000.

The Company incurred legal fees of $62,000 (December 31, 2011 - $86,000) 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, 2012. At December 31, 2012, $8,000 (December 31, 2011 - $38,000) 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 the joint ventures. These transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts.

Joint Venture Transactions

$Thousands	2012	2011
Revenue	80	151
Operating and maintenance costs	5,801	3,935
Selling and administrative costs	723	624
Year-end accounts payable	1,960	2,272

Class A and Class B Share Dividends

Per Share	2012	2011	Change	% Change
Dividends per share	0.28	0.28	0.00	0%

During 2012, AKITA paid dividends totalling $5,038,000 ($0.28 per share) on its Class A Non-Voting Shares and Class B Common Shares, compared to $5,066,000 ($0.28 per share) for 2011. 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. On March 5, 2013 the Board of Directors approved the payment of an increased quarterly dividend that equates to $0.32 per share annualized. This represents an increase of 14% calculated on an annual basis.

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, 2011	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	16,346,421	21,942	1,653,884	1,366	18,030,305	23,308
Shares repurchased in 2012	(104,179)	(140)	-	-	(104,179)	(140)
Stock options exercised in 2012	2,000	18	-	-	2,000	18
December 31, 2012	16,274,242	21,820	1,653,884	1,366	17,928,126	23,186
Exercisable options at Dec. 31, 2012	217,200					
Unexercisable options at Dec. 31, 2012	224,800					

At March 5, 2013, the Company had 16,316,242 Class A Non-Voting Shares and 1,653,884 Class B Common shares outstanding. At that date, there were also 362,000 stock options outstanding, of which 137,200 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 nine drilling rigs under joint ventures. As part of the agreements to construct each rig, multi-year term contracts were entered into with customers. Seven of the initial term contracts expired prior to 2012. The remaining contracts expire in 2014.

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

$Thousands	2012	2011
Current assets	7,992	8,287
Capital assets, net of depreciation	57,160	44,460
Current liabilities	3,223	2,644
Revenue	37,792	28,329
Expenses	23,628	18,231
Net income	14,164	10,098

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 requires management to make 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 excessively high or low depreciation estimates.

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 $1,942,000 at December 31, 2012 (2011 - $1,535,000). AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, since 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 2012, a key assumption relates to the use of a 4.0% 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 2011, 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 $13,285,000 in cash held at December 31, 2012.

Business Risks and Risk Management

The following information is a summary only of certain risk factors relating to the business of AKITA 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.

AKITA has a diversified fleet of rigs that compete in most major Canadian market segments. The Company has developed and maintains a rigorous and comprehensive set of standards in terms of equipment design and operating procedures. Customer relations is an important aspect to this service based business and AKITA has always emphasized having a strong set of business relationships with customers that are active throughout all phases of the business cycle. Often, these customers are some of the largest oil and gas producers that operate in the Western Canadian market.

In order to enhance the Company's competitiveness, AKITA has historically maintained a low cost structure for the Company. A key aspect of this cost structure is the limited use of financial leverage. The Company did not have any financial leverage at either December 31, 2011 or December 31, 2012.

AKITA continually upgrades its drilling fleet to ensure that it is able to meet ongoing and evolving customer requirements. The Company has a rigorous ongoing maintenance program designed to minimize rig down time and maximize customer satisfaction. AKITA operates its rigs utilizing employees that are well trained, knowledgeable of and motivated to comply with the highest possible safety standards. AKITA uses a comprehensive set of training programs to help to achieve this result.

Dependence on Major Customers

AKITA earned 32.9% 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 2012 fiscal year. The loss of one or both major customers or a significant reduction in the business done with either one of these customers without offsetting new revenue 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.

AKITA's mitigation strategies to reduce the impact of seasonality include the strategic positioning of conventional rigs within its markets to reduce this impact, particularly at the end of each winter drilling season. Pad rigs are less susceptible to the seasonal nature of the industry as they are typically capable of continuing their drilling programs once they are rigged up on a pad.

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.

The Company's board and management are cognizant of the potentially volatile nature of the industry in which AKITA operates. Consequently, the financial affairs of the Company are managed in a conservative fashion, including maintaining a conservative balance sheet. Major capital expenditures are typically tied to long-term contracts to minimize the amount of capital that is at risk for a timely recovery.

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 its continued success. There is no assurance that competitors will not achieve technological 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 effect 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 workforce, 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 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 the time when a decision to build a rig is made and when construction is completed: 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. In recent years, 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:

- maintaining a conservative balance sheet that includes a low cost structure for the Company, including limited use of financial leverage;
- 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;
- 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 2012 with 14 pad rigs. During the year, AKITA converted one of its conventional rigs into a pad rig suitable for drilling up to 4,000 metres for potash under a term contract arrangement. The Company also added one new pad rig suitable for SAGD drilling in the oil sands. Consequently, at the end of 2012, AKITA had 16 pad rigs. In addition, at year-end, the Company was constructing a new heavy oil pad rig for delivery in early 2013.

Demand is expected to continue to be strong for conventional heavy capacity double sized rigs and light to medium capacity triple sized rigs during the first quarter of 2013 and potentially beyond. The Company has four rigs that are suitable for this market.

AKITA has been active in potash related drilling for the past six years. Although the Company had only one of its rigs drilling on potash programs during 2012, the prospects for continued potash drilling are positive and AKITA anticipates operating two pad rigs dedicated to potash development projects on a multi-year basis, one of which is owned by AKITA and the second of which is owned by an existing customer of AKITA.

Demand for shallow capacity rigs is highly seasonal and the current 2013 winter season has once again shown a strong level of demand. Management anticipates that demand after break-up for this class of rig will be comparable to the corresponding period in 2012. AKITA has nine rigs in this category.

Opportunities for deep and ultra-deep conventional rigs improved during 2012 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. While the market for this type of equipment has softened compared to earlier in 2012, largely as a result of commodity price weakness, this rig category has the potential to play a more significant role in AKITA's ongoing success in the future. AKITA has five rigs in this category.

On November 13, 2012, the CAODC released its 2013 industry drilling forecast estimating the drilling of 10,409 wells, compared to 11,651 wells completed in 2012. The 2013 forecast was based upon commodity price assumptions of US $86 per barrel for crude oil and CAD $3.44 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. Winter drilling activity to date appears to support this forecast. Nevertheless, 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 has since been renewed annually for the past two years.

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.

During 2012, the Company was awarded multi-year contracts to construct two rigs for two major corporations. The first of these rigs was completed late in the fourth quarter and commenced its initial contract term. The second rig is scheduled for completion during the second quarter of 2013.

During 2012, the Company was awarded a contract to construct a rig for resale to one of AKITA's existing customers. This rig was completed during the first quarter of 2013 and is being operated by AKITA for the customer under a multi-year contract.

During 2012, the Company converted one of its triple size conventional rigs into a pad rig for a large customer to execute a two-year drilling project.

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 Canada's northern territories. 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.

Disclosure Controls and Internal Controls Over Financial Reporting

As at December 31, 2012, management evaluated, under the supervision of and with the participation of the President and Chief Executive Officer (the "CEO") and the Vice President, Finance and Chief Financial Officer (the "CFO"), the effectiveness of the Company's disclosure controls and procedures ("DC&P") as defined under National Instrument 52-109. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P was effective as at December 31, 2012.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based on the evaluation of the design and operating effectiveness of the Company's ICFR as at December 31, 2012 by management, under the supervision of and with the participation of the CEO and CFO, the CEO and CFO concluded that the Company's ICFR was effective as at December 31, 2012.

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 therefore carry the risk that the predictions and other forward-looking statements will not be realized. 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 factors such as the level of exploration and development activity carried on by AKITA's customers; world crude oil prices and North American natural gas prices; weather; access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events prior to making a decision to invest in AKITA. Except where required by law, the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by it or on its behalf.

Upcoming Accounting Standard Changes

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.

The Company currently applies the proportionate consolidation method in recording its interests in joint ventures. The Company has prepared a preliminary assessment of the impact of the foregoing standard. For the year ended December 31, 2012, the Company does not anticipate any change to its net earnings. The Company anticipates $14.2M in joint venture earnings along with corresponding reductions of $36.2M in revenue and $22.0M in other costs and expenses. The Company anticipates recording an investment in joint ventures of $6.1M along with corresponding reductions of $2.3M in cash, $3.6M in accounts receivable, $1.5M in accounts payable and an increase of $1.3M in retained earnings.

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. The Company anticipates recording an increase in pension liability of $406,000 with a corresponding reduction in retained earnings.

Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 5, 2013. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2012 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.

Photo credit: F. Biggeman

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 future 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 27.

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 Auditor's 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 statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and 2011, 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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, 2012 and December 31, 2011 and their financial performance and their cash flows for the years ended in December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 5, 2013

Consolidated Statements of Financial Position

$Thousands		December 31, 2012	December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents	Note 5	$ 13,285	$ 18,228
Term deposits	Note 6	-	9,500
Accounts receivable	Note 7	66,116	48,351
Income tax recoverable		4,487	-
Prepaid expenses and other		216	413
		84,104	76,492
Non-current Assets			
Restricted cash	Note 8	3,000	3,000
Other long term assets		320	200
Investment property	Note 10	601	626
Property, plant and equipment	Note 11	204,969	166,812
Total Assets		$ 292,994	$ 247,130
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	Note 12	$ 44,669	$ 27,550
Deferred revenue		2,141	146
Dividends payable	Note 21	1,255	1,262
Income taxes payable		-	3,269
		48,065	32,227
Non-current Liabilities			
Deferred income taxes	Note 13	18,989	12,264
Pension liability	Note 14	1,942	1,535
Total Liabilities		68,996	46,026
Shareholders' Equity			
Class A and Class B shares	Note 15	23,186	23,308
Contributed surplus		3,060	2,758
Retained earnings		197,752	175,038
Total Equity		223,998	201,104
Total Liabilities and Equity		$ 292,994	$ 247,130

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

Approved by the Board,

Director

Director

Consolidated Statements of Net Income and Comprehensive Income

$Thousands except per share amounts		Year Ended December 31 2012	2011
Revenue	Note 16	$ 239,654	$ 199,934
Costs and Expenses			
Operating and maintenance	Note 18	159,458	132,520
Depreciation and amortization	Note 11	24,342	20,933
Selling and administrative	Note 18	19,012	16,117
Total costs and expenses		202,812	169,570
Revenue less costs and expenses		36,842	30,364
Other income (losses)			
Interest income		419	638
Interest expense		(4)	(23)
Gain on sale of joint venture interests in rigs and other assets		1,082	787
Net other gains (losses)		5	(4)
Total other income		1,502	1,398
Income before income taxes		38,344	31,762
Income taxes	Note 13	9,641	8,409
Net income for the year attributable to shareholders		28,703	23,353
Other comprehensive income (loss)			
Cumulative translation adjustment		-	(50)
Comprehensive income for the year attributable to shareholders		$ 28,703	$ 23,303

Earnings per Class A and Class B Share	Note 20		
Basic		$ 1.60	$ 1.29
Diluted		$ 1.60	$ 1.29

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

Consolidated Statements of Changes in Shareholders' Equity

$Thousands	Attributable to the Shareholders of the Company						
	Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at December 31, 2010	$ 22,081	$ 1,366	$ 23,447	$ 2,512	$ 50	$157,730	$183,739
Net income for the year	-	-	-	-	-	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	$201,104
Net income for the year	**-**	**-**	**-**	**-**	**-**	**28,703**	**28,703**
Shares repurchased	**(140)**	**-**	**(140)**	**-**	**-**	**(951)**	**(1,091)**
Stock options excercied	**18**	**-**	**18**	**-**	**-**	**-**	**18**
Stock options charged to expense	**-**	**-**	**-**	**302**	**-**	**-**	**302**
Dividends	**-**	**-**	**-**	**-**	**-**	**(5,038)**	**(5,038)**
Balance at December 31, 2012	**$ 21,820**	**$ 1,366**	**$ 23,186**	**$ 3,060**	**$ -**	**$197,752**	**$223,998**

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

Consolidated Statements of Cash Flows

$Thousands		Year Ended December 31 2012	2011
Operating Activities			
Net income		$ 28,703	$ 23,353
Non-cash items included in net income			
Depreciation and amortization	Note 11	24,342	20,933
Deferred income taxes	Note 13	6,725	(971)
Expense for defined benefit pension plan	Note 14	422	121
Stock options charged to expense	Note 19	302	246
Gain on sale of joint venture interests in rigs and other assets		(1,082)	(787)
Funds flow from operations		59,412	42,895
Change in non-cash working capital:			
Accounts receivable		(17,765)	(15,012)
Prepaid expenses and other		197	(191)
Income tax recoverable		(4,487)	-
Accounts payable and accrued liabilities		19,537	3,212
Deferred revenue		1,995	146
		(523)	(11,845)
		58,889	31,050
Pension benefits paid	Note 14	(15)	(15)
Interest paid		-	(23)
Income tax expense - current	Note 13	2,916	9,380
Income tax paid		(6,185)	(6,196)
Net cash from operating activities		55,605	34,196
Investing Activities			
Capital expenditures	Note 11	(65,356)	(54,509)
Change in non-cash working capital related to capital		(2,425)	5,524
Change in cash restricted for loan guarantees	Note 8	-	(500)
Change in term deposits	Note 6	9,500	500
Proceeds on sale of joint venture interests in rigs and other assets		3,984	1,487
Net cash used in investing activities		(54,297)	(47,498)
Financing Activities			
Dividends paid		(5,038)	(5,066)
Proceeds received on exercise of stock options	Note 15	18	-
Repurchase of share capital	Note 15	(1,091)	(1,118)
Loan commitment fee paid		(140)	(200)
Net cash used in financing activities		(6,251)	(6,384)
Effect of exchange rate changes on cash and cash equivalents		-	(50)
Decrease in cash and cash equivalents		(4,943)	(19,736)
Cash and cash equivalents, beginning of year		18,228	37,964
Cash and Cash Equivalents, End of Year		$ 13,285	$ 18,228

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

Notes to the Consolidated Financial Statements - Index

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012 and December 31, 2011

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 39 drilling rigs (35.875 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

Basis of preparation

The consolidated financial statements for the year ended December 31, 2012, have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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"). These consolidated financial statements are presented in Canadian dollars.

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of March 5, 2013, 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.

Certain revenue is comprised of the fair value of the consideration received or receivable from the construction and related sale of rigs in the ordinary course of the Company's activities and is recorded using the percentage of completion method based upon costs incurred, the passage of time relative to the anticipated length of the project and an estimate of work performed relative to future work required to complete the project.

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

Translation of foreign currencies

Functional currency
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 as of 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.

Disposal of a foreign operation
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 and Comprehensive 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, drilling camps 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.

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 Statement of Financial Position 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.

Additional GAAP Measure

Funds flow from operations is an additional Generally Accepted Accounting Principle (GAAP) measure under IFRS. AKITA's method of determining funds flow from operations may differ from methods used by other companies and involves including cash flow from operating activities 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.

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.

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 financial statements requires management to make 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. Assuming a 10% difference in the actual useful lives of drilling rigs compared to the accounting estimate of useful life and based upon actual drilling days achieved for the year ended December 31, 2012, drilling rig depreciation could be either increased or decreased by $1,940,000 (2011 - $1,696,000). AKITA's depreciation expense does not have any effect on the changes to the financial condition for the Company, as depreciation is a non-cash item.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company measures and 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 the 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 either overstated or understated as a result of projections of discounted future cash flows.

A significant estimate used in the preparation of AKITA's financial statements relates to the measurement of the defined benefit pension liability for selected employees that was recorded as $1,942,000 at December 31, 2012 (December 31, 2011 - $1,535,000). 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 2012, a key assumption relates to the use of a 4.0% (2011 – 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 the measurement of deferred income taxes, including related to 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.

During 2012, the Company commenced construction of a drilling rig for a third party. Management makes assumptions regarding the percentage of completion on rigs for resale.

4. 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.

5. Cash and Cash Equivalents

$Thousands	December 31 2012	December 31 2011
Cash at bank and in hand	$ 13,285	$ 13,293
Short-term bank deposits	-	4,935
	$ 13,285	$ 18,228

Effective interest rate (%) on short-term bank deposits	N/A	1.2
Average number of days to maturity for short-term bank deposits	N/A	30

6. Term Deposits

$Thousands	December 31 2012	December 31 2011
Term deposits	$ -	$ 9,500
Effective interest rate (%) on term deposits	N/A	2.0
Average number of days to maturity for term deposits	N/A	108

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

7. Financial Instruments

Operating Loan Facility

During 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 0.45% to 1.45% over prime interest rates or 1.45% to 2.45% over guaranteed notes, depending on the preference of the Company. During the fourth quarter of 2012 the Company increased its operating loan facility to $75,000,000 and extended its term for an additional year until 2017. Security for this facility includes a General Security Agreement covering all current and future assets.

In accordance with its loan facility, the Company is required to ensure that the following covenants are met:

- the ratio of Funded Debt to EBITDA shall not exceed 3.00:1.00 calculated on a trailing 12 month basis;
- the ratio of EBITDA to Interest Expense shall not be less than 3.00:1.00 calculated on a trailing 12 month basis;
- the ratio of Tangible Assets to Funded Debt shall not be less than 2.25:1.00.

EBITDA is not a recognized measure under IFRS. EBITDA is defined as net income from continuing operations before interest expense, current tax expense, depreciation and amortization. Tangible Assets are all accounts receivable, inventory, unrestricted cash, term deposits and cash equivalents and the net book value of fixed assets.

The Company accessed this facility during the second quarter of 2012 on a short-term basis, having repaid the amount borrowed prior to June 30, 2012. The Company did not access this facility in 2011 or during the first, third and fourth quarters of 2012.

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

$Thousands	December 31 2012	December 31 2011
Within 30 days	$ 53,708	$ 33,009
31 to 60 days	8,119	12,661
61 - 90 days	3,321	2,772
Over 90 days	1,078	7
Allowance for doubtful accounts	(110)	(98)
Accounts receivable	$ 66,116	$ 48,351

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, 2012, AKITA's exposure was limited substantially to its operations in the United States, which constituted 0% of its total revenue (2011 – 0%).

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2012 and December 31, 2011, this risk was limited due to having substantial cash balances, strong cash flows from operations and a banking facility sufficient to extinguish all current liabilities. All working capital amounts at December 31 are due within one year.

8. Restricted Cash

$Thousands	December 31 2012	December 31 2011
Balance held in bank liquid deposit instruments	$ 3,000	$ 3,000

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.

9. Investments in Joint Ventures

Active Joint Ventures during the Year	Operating Location	Ownership Interest
Akita Wood Buffalo Joint Venture 22	Canada	85%
Akita Wood Buffalo Joint Venture 25	Canada	85%
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% (1)
Akita Equtak Joint Venture 63	Canada	50%

(1) During the third quarter of 2012, AKITA Drilling Ltd. acquired its Joint Venture Partner's 10% interest in Rig 62 and now owns 100% of the rig.

$Thousands	December 31 2012	December 31 2011
Current assets	$ 7,992	$ 8,287
Non-current assets	57,160	44,460
Total Assets	$ 65,152	$ 52,747
Current liabilities	$ 3,223	$ 2,644
Non-current liabilities	-	-
Total Liabilities	$ 3,223	$ 2,644
Net Assets	$ 61,929	$ 50,103

	Year Ended	
	December 31 2012	December 31 2011
Revenue	$ 37,792	$ 28,329
Expenses	$ 23,628	$ 18,231
Net income	$ 14,164	$ 10,098

10. 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 $601,000 at December 31, 2012 (December 31, 2011 - $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 $46,000 in other gains and losses from lease revenue for 2012 (2011 –$14,000).

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

11. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2010	$ 4,952	263,769	$ 5,464	$ 274,185
Additions	61	53,172	1,277	54,510
Disposals/transfer to investment property	(773)	(9,793)	(542)	(11,108)
Balance as at December 31, 2011	4,240	307,148	6,199	317,587
Additions	-	63,958	1,398	65,356
Disposals	-	(11,444)	(143)	(11,587)
Balance as at December 31, 2012	**$ 4,240**	**$ 359,662**	**$ 7,454**	**$ 371,356**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Disposals	-	(8,566)	(119)	(8,685)
Depreciation expense	94	23,457	746	24,297
Balance as at December 31, 2012	**$ 1,080**	**$ 160,239**	**$ 5,068**	**$ 166,387**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
As at December 31, 2012	**$ 3,160**	**$ 199,423**	**$ 2,386**	**$ 204,969**

The Company has $12,256,000 in capital assets that were not being depreciated, as they were under construction as at December 31, 2012 (December 31, 2011 – $4,846,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $45,000 for the year ended December 31, 2012 (2011- $3,000).

12. Accounts Payable and Accrued Liabilities

$Thousands	December 31 2012	December 31 2011
Trade payables	**$ 13,814**	$ 8,693
Statutory liabilities	**1,979**	2,519
Accrued expenses	**28,876**	16,338
	$ 44,669	$ 27,550

13. Income Taxes

Income tax expense is comprised of the following:

$Thousands	Year Ended December 31 2012	Year Ended December 31 2011
Current tax expense	$ 2,916	$ 9,380
Deferred tax expense	6,725	(971)
	$ 9,641	$ 8,409

The following table reconciles the theoretical income tax expense using a weighted average Canadian federal and provincial rate of 25.36% (2011 – 26.89%) to the reported tax expense. The rate reduction is due to the Canadian federal rate change from 16.5% in 2011 to 15.0% in 2012. 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.

$Thousands	Year Ended December 31 2012	Year Ended December 31 2011
Income before income taxes	$ 38,344	$ 31,762
Expected income tax at statutory rate of 25.36% (2011 – 26.89%)	9,724	8,541
Add (Deduct):		
Change in deferred income tax rates	(15)	(44)
Permanent differences	169	115
Jurisdictional rate difference	-	6
Return to provision adjustment	(97)	(281)
Other	(140)	72
Income tax expense	$ 9,641	$ 8,409

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 December 31, 2010	$ 13,189	$ (385)	$ 431	$ 13,235
Charged/(credited) to the statement of net income	(1,043)	(5)	77	(971)
Balance as at December 31, 2011	12,146	(390)	508	12,264
Charged/(credited) to the statement of net income	6,770	(102)	57	6,725
Balance as at December 31, 2012	**$ 18,916**	**$ (492)**	**$ 565**	**$ 18,989**

14. 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 18, 2013 and was utilized in measuring the December 31, 2012 balances.

$Thousands	2012	2011
Actuarial present value of defined benefit obligation at January 1	$ 1,982	$ 1,592
Interest cost	95	84
Current service cost	258	37
Benefits paid	(15)	(15)
Unrecognized actuarial loss	27	284
Actuarial present value of defined benefit obligation at December 31	$ 2,347	$ 1,982

$Thousands	December 31 2012	December 31 2011
Actuarial present value of defined benefit obligation	$ 2,347	$ 1,982
Amounts not yet recognized in financial statements:		
Unamortized net losses	(405)	(447)
Accrued pension liability	$ 1,942	$ 1,535

Key Assumptions:

%	December 31 2012	December 31 2011
Discount rate	4.00	4.25

The anticipated retirement age of the plan members is 61 to 65 years (2011 – 61 to 65 years). The mortality index is based on the 1994 Uninsured Pensioners Mortality Table projected generationally.

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

	Year Ended	
$Thousands	December 31 2012	December 31 2011
Defined benefit plan		
Interest cost	$ 95	$ 84
Current service cost	$ 258	$ 37
Amortization of actuarial loss	$ 69	$ -
Expense for defined benefit plan	422	121
Expense for defined contribution plan	$ 4,542	$ 3,967
	$ 4,964	$ 4,088

15. 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

(Number of Shares)	Class A Non-Voting	Class B Common	Total
Shares outstanding at December 31, 2010	16,476,629	1,653,884	18,130,513
Shares repurchased in 2011	(100,208)	-	(100,208)
Shares outstanding at December 31, 2010	16,376,421	1,653,884	18,030,305
Shares repurchased in 2012	(104,179)	-	(104,179)
Stock options exercised in 2012	2,000	-	2,000
Shares outstanding at December 31, 2012	**16,274,242**	**1,653,884**	**17,928,126**

Each Class B Common Share may be converted into one Class A Non-Voting Share at the shareholder's option. In the event that an offer to purchase Class B Common Shares is made to all or substantially all holders of Class B Common Shares while at the same time an offer to purchase Class A Non-Voting Shares on the same terms and conditions is not made to the holders of Class A Non-Voting Shares, and holders of more than 50% of the Class B Common Shares do not reject the offer in accordance with the terms of AKITA's articles of incorporation, then the holders of Class A Non-Voting Shares will be entitled to exchange each Class A Non-Voting Share for one Class B Common Share for the purpose of depositing the resulting Class B Common Share 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 March 5, 2013 represented 86.4% of the Class B Common Shares. Sentgraf Enterprises Ltd. also owns 4,505,625 Class A Non-Voting Shares, which at March 5, 2013 represented 27.6% of the Class A Non-Voting Shares.

The Company had an outstanding normal course issuer bid in place for the second half of 2012 and 2011 for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2012, 104,179 shares were repurchased and cancelled under normal course issuer bids at a cost of $1,091,000 of which $140,000 was charged to share capital and $951,000 was charged to retained earnings. 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. The most recent offer will expire on May 28, 2013.

16. Revenue

Revenue is comprised of the following:

	Year Ended	
$Thousands	**December 31 2012**	December 31 2011
Contract drilling services	**$ 221,714**	$ 199,934
Rig construction	**17,940**	-
Total revenue	**$ 239,654**	$ 199,934

17. Significant Customers

During 2012, two customers (2011 – two customers) each provided more than 10% of the Company's total revenue. In management's assessment, the future viability of the Company is not dependent upon these major customers.

18. 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	
$Thousands	December 31 2012	December 31 2011
Expenses		
Salaries, wages and benefits	$ 104,111	$ 96,302
Materials and supplies	41,598	24,862
Repairs and maintenance	23,799	20,277
External services and facilities	8,962	7,196
	$ 178,470	$ 148,637
Allocated to:		
Operating and maintenance	$ 159,458	$ 132,520
Selling and administrative	19,012	16,117
	$ 178,470	$ 148,637

19. Stock-based Compensation Plans

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

(Number of Options)	December 31 2012	December 31 2011
Reserved under current stock option plan	1,700,000	1,700,000
Granted at beginning of year	779,500	818,500
Granted during the year	(102,500)	(102,000)
Available for future issuance	677,000	779,500

The Company did not have any outstanding SARs during either 2012 or 2011, therefore no corresponding liability is recorded on the Statement of Financial Position.

A summary of the status of the Company's stock-based compensation plans as of December 31, 2012 and 2011, and changes during the years ended on those dates is presented below:

	2012		2011	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Options outstanding at January 1	341,500	10.01	239,500	9.88
Options granted	102,500	10.86	102,000	10.32
Options exercised	(2,000)	8.41	-	-
Options outstanding at December 31	442,000	10.22	341,500	10.01
Options exercisable at December 31	217,200	10.04	145,000	9.89

The following table summarizes outstanding stock options at December 31:

		2012			2011		
Vesting Period (Years)	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
5	8.405	-	-	-	2,000	0.6	2,000
3	9.940	12,000	0.2	12,000	12,000	1.2	12,000
5	9.940	24,000	0.2	24,000	24,000	1.2	24,000
8	9.940	44,000	0.2	44,000	44,000	1.2	44,000
5	9.870	157,500	7.2	94,500	157,500	8.2	63,000
3	10.320	6,000	8.2	3,000	6,000	9.2	-
6	10.320	96,000	8.2	19,200	96,000	9.2	-
5	10.860	102,500	9.2	20,500	-	-	-
Weighted Average Contractual Life			6.6			6.8	

The Company recorded $302,000 in compensation expense for the year ended December 31, 2012 (2011 - $246,000) 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:

	2012	2011
Risk free interest rate	1.49%	2.75%
Expected volatility	34.9%	34.6%
Dividends yield rate	2.60%	3.20%
Option life	4.5 years	7.0 years
Weighted average fair value	$ 2.74	$ 3.07
Forfeiture rate	0.00%	0.00%

20. Net Income per Share

	Year Ended	
$Thousands	**December 31 2012**	December 31 2011
Net income	**$28,703**	$23,353
Weighted average outstanding shares	**17,988,552**	18,083,411
Incremental shares for diluted earnings per share calculation	**2,439**	12,200
Weighted average outstanding shares for diluted earnings per share	**17,990,991**	18,095,611
Basic earnings per share ($)	**$ 1.60**	$ 1.29
Diluted earnings per share ($)	**$ 1.60**	$ 1.29

21. 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, 2011	April, 2011	0.07	1,269
May, 2011	July, 2011	0.07	1,268
August, 2011	October, 2011	0.07	1,267
November, 2011	January, 2012	0.07	1,262
March, 2012	**April, 2012**	**0.07**	**1,261**
May, 2012	**July, 2012**	**0.07**	**1,263**
August, 2012	**October, 2012**	**0.07**	**1,255**
November, 2012	**January, 2013**	**0.07**	**1,255**

22. 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. During 2012 and 2011, the Company operated only in Canada.

23. 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 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 15). The accompanying table summarizes transactions and period balances with those affiliates.

$Thousands	Year Ended December 31 2012	December 31 2011
Revenue (computer services, rent)	$ 76	$ 44
Purchases		
Property, plant and equipment (wellsite trailers)	688	638
Operating (sponsorship and advertising (Note 24), other)	401	367
Purchase commitments (capital)	13	-
Year end accounts receivable	3	-
Year end accounts payable	30	12

b. Joint Ventures

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

$Thousands	Year Ended December 31 2012	December 31 2011
Revenue	$ 80	$ 151
Operating Costs	5,801	3,935
Selling and administrative costs	723	624
Year end accounts payable	1,960	2,272

c. Legal fees

The Company incurred legal fees of $62,000 (2011 - $86,000) 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, 2012. At December 31, 2012, $8,000 (December 31, 2011 - $38,000) 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 for services in the capacity as either officers or directors is shown below:

$Thousands	Year Ended December 31 2012	December 31 2011
Salaries, directors fees and other short-term benefits	$ 3,638	$ 3,371
Post-employment benefits	555	221
Share-based payments	469	471
Year end compensation payable	1,305	1,380

24. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2012, the Company had ten rigs with multi-year contracts including one for a rig currently under construction. Of these contracts, five are anticipated to expire in 2013, three in 2014, one in 2016 and one in 2018.

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 2012 (2011 - $325,000).

The Company leases its office space at an annual cost of approximately $563,000 per year. This lease expires on December 31, 2014.

At December 31, 2012, the Company had capital expenditure commitments of $5,796,000 (2011 – $531,000).

25. Accounting Standards Issued But Not Yet Applied

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.

The Company currently applies the proportionate consolidation method in recording its interests in joint ventures. The Company has prepared a preliminary assessment of the impact of the foregoing standard. For the year ended December 31, 2012 the Company does not anticipate any change to its net earnings. The Company anticipates recording $14.2M in joint ventures earnings along with corresponding reductions of $36.2M in revenue and $22.0M in other costs and expenses. The Company anticipates recording an investment in joint ventures of $6.1M along with corresponding reductions of $2.3M in cash, $3.6M in accounts receivable and other current assets, $1.5M in accounts payable and an increase of $1.3M in retained earnings.

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. The Company anticipates recording an increase in pension liability of $406,000 with a corresponding reduction in retained earnings.

10 YEAR FINANCIAL REVIEW

10 Year Financial Review

$Thousands (except per share)	Annual Ranking	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Summary of Operations											
Revenue	1	$ 239,654	$ 199,934	$ 145,138	$ 106,263	$ 137,246	$ 141,962	$ 174,543	$ 162,110	$ 135,747	$ 124,078
Income before income taxes	3	$ 38,344	$ 31,762	$ 10,932	$ 11,901	$ 20,133	$ 28,667	$ 48,129	$ 44,770	$ 32,121	$ 28,678
Income taxes	5	$ 9,641	$ 8,409	$ 3,462	$ 3,521	$ 7,147	$ 7,525	$ 14,374	$ 15,506	$ 11,246	$ 9,856
Net income	3	$ 28,703	$ 23,353	$ 7,470	$ 8,380	$ 14,847	$ 20,752	$ 33,755	$ 29,264	$ 20,875	$ 18,822
As a percentage of average shareholders' equity	5	13.5%	12.1%	4.1%	4.2%	7.7%	11.5%	21.0%	21.4%	18.3%	19.4%
Earnings per Class A and Class B share	2	$ 1.609	$ 1.29	$ 0.41	$ 0.46	$ 0.81	$ 1.14	$ 1.83	$ 1.57	$ 1.15	$ 1.04
Funds flow from operations	1	$ 59,412	$ 42,895	$ 32,798	$ 23,960	$ 34,149	$ 37,143	$ 47,199	$ 42,421	$ 33,947	$ 30,426
As a percentage of average shareholders' equity	5	28.0%	22.3%	17.9%	12.0%	17.6%	20.6%	29.4%	31.0%	29.7%	31.3%
Financial Position at Year End											
Working capital	9	$ 36,039	$ 44,265	$ 61,341	$ 69,819	$ 63,089	$ 49,123	$ 56,681	$ 59,499	$ 40,414	$ 24,319
Current ratio	10	1.75:1	2.37:1	4.04:1	7.02:1	3.90:1	3.92:1	2.77:1	2.74:1	2.83:1	1.82:1
Total assets	1	$ 292,994	$ 247,130	$ 218,587	$ 234,215	$ 242,869	$ 223,522	$ 222,237	$ 199,852	$ 162,957	$ 150,901
Shareholders' equity	1	$ 223,998	$ 201,104	$ 183,739	$ 201,446	$ 198,461	$ 188,038	$ 172,873	$ 148,366	$ 124,926	$ 103,590
per share	1	$ 12.49	$ 11.15	$ 10.19	$ 11.05	$ 10.89	$ 10.29	$ 9.43	$ 8.00	$ 6.70	$ 5.74
Other											
Capital expenditures (Net)	1	$ 65,356	$ 54,509	$ 36,293	$ 11,835	$ 14,622	$ 33,505	$ 40,655	$ 18,386	$ 15,308	$ 16,122
Depreciation and amortization	2	$ 24,342	$ 20,933	$ 24,540	$ 17,476	$ 16,667	$ 15,164	$ 14,211	$ 12,691	$ 11,263	$ 9,432
Dividends paid	6	$ 5,038	$ 5,066	$ 5,079	$ 5,105	$ 5,111	$ 5,117	$ 4,448	$ 4,182	$ 3,641	$ 3,335
per share	1	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.24	$ 0.225	$ 0.20	$ 0.18

Note: Financial information has been calculated under Canadian GAAP for the years 2003 to 2009 and under IFRS for the years 2010 through 2012. Readers should be aware that these two sets of accounting standards are not consistent with each other.

Corporate Information

Directors

Loraine M. Charlton
Corporate Director,
Calgary, Alberta

Arthur C. Eastly
Corporate Director,
Calgary, Alberta

Linda A. Southern-Heathcott
President and Chief Executive Officer,
Spruce Meadows,
President, Team Spruce Meadows Inc.
Chairman of the Board,
AKITA Drilling Ltd.,
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,
AKITA Drilling Ltd.,
Calgary, Alberta

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

Ronald D. Southern
C.C., C.B.E., B.Sc., LL.D.,
Founder and Director, ATCO Ltd. and
Canadian Utilities Limited,
Deputy Chairman of the Board,
AKITA Drilling Ltd.,
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

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Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

Canadian Stock Transfer Company
Calgary, Alberta and Toronto, Ontario
1-800-387-0825

Share Symbol / TSX

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

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