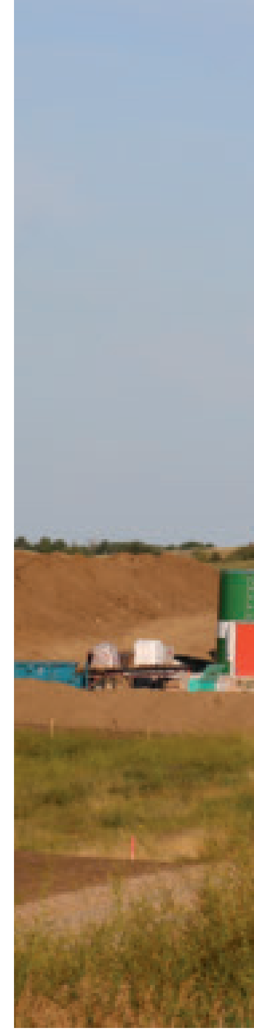
AKITA DRILLING LTD.

2013 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 900 people. The Company has ownership in 38 drilling rigs in all depth ranges.

Contents

Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. on Tuesday, May 13, 2014 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 of this 2013 Annual Report for AKITA.

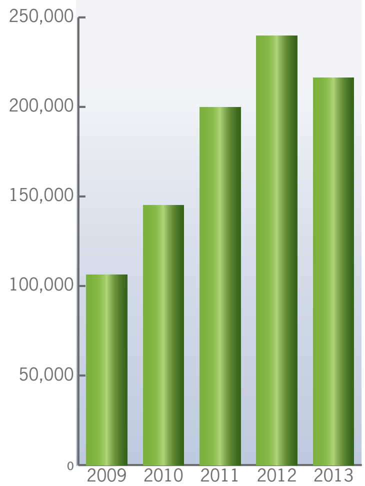
On the cover:
Rig 20, one of AKITA’s pad rigs drilling in Farrell Creek, B.C.
Photo credit:
F. Biggeman

Above:
Rig 8, drilling near Chauvin, Alberta.
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 credit:
F. Biggeman

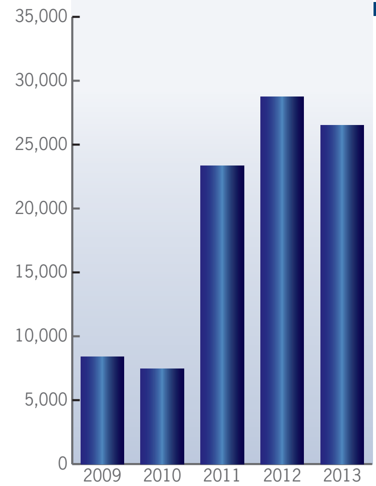
Operational Performance

Revenues
($000's)



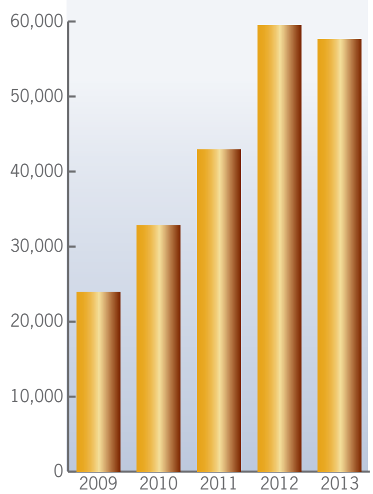
In 2013, adjusted revenue, which has grown at an average annualized rate of 19% since 2009, was 10% lower than in 2012, largely as a result of weaker demand for the Company's conventional triple and double sized rigs.

Net Earnings
($000's)



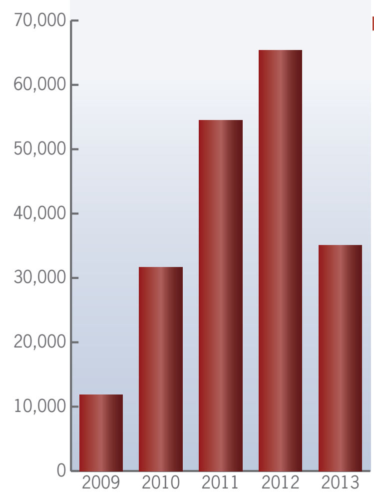
Pad drilling rigs made a continuing major contribution to AKITA's earnings performance once again in 2013.

Funds Flow from Operations
($000's)



Annual funds flow in 2013, which was only surpassed in 2012, was adversely affected by a decline in the portion of income taxes that are deferred to future years.

Capital Expenditures
($000's)



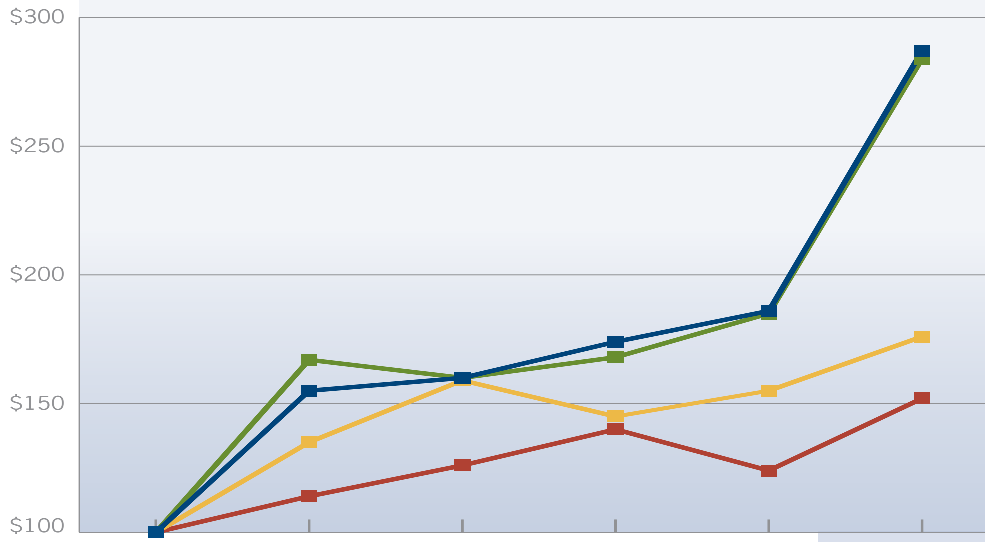
Capital projects in 2013 included the completion of a triple pad rig to drill in the oil sands and the commencement of an ultra-deep triple pad rig that will drill wells that are anticipated to provide natural gas for liquified natural gas projects.

Note: Financial information has been calculated under Canadian Generally Accepted Accounting Principles ("GAAP") for 2009 and under International Financial Reporting Standards ("IFRS") for the years 2010 through 2013. Readers should be aware that these two sets of accounting standards are not consistent with each other. Adjusted revenue, which affects the years 2012 and 2013, includes AKITA's proportionate share of revenue from its joint venture operations. A change in IFRS that became effective for 2012 and future reporting years, no longer permits proportionate consolidation of joint venture activities.

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, 2008 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 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
AKITA Class A	100	155	160	174	186	**287**
AKITA Class B	100	167	160	168	185	**284**
S&P/TSX Composite Index	100	135	159	145	155	**176**
TSX Oil & Gas Drilling Sub-Index	100	114	126	140	124	**152**

Share Performance

		2009	2010	2011	2012	2013
Weighted average number of Class A and Class B shares		18,230,913	18,148,246	18,083,411	17,988,552	**17,969,415**
Market prices for Class A shares	High	$ 12.44	$ 10.71	$ 12.75	$ 11.89	**$ 16.61**
	Low	$ 5.25	$ 7.15	$ 9.18	$ 9.21	**$ 10.30**
	Close	$ 9.50	$ 9.50	$ 10.70	$ 10.50	**$ 15.79**
Volume		2,170,740	1,021,031	1,231,978	2,103,087	**3,345,199**
Market prices for Class B shares	High	$ 12.25	$ 11.50	$ 12.65	$ 11.39	**$ 16.79**
	Low	$ 6.25	$ 8.04	$ 9.80	$ 9.94	**$ 10.65**
	Close	$ 10.76	$ 10.00	$ 10.25	$ 11.00	**$ 16.50**
Volume		14,049	13,268	14,436	16,683	**18,393**

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.

	2009	2010	2011	2012	2013
Dividends per share ($)	0.28	0.28	0.28	0.28	**0.32**

Letter to the Shareowners

Linda A. Southern-Heathcott
Chairman of the Board

Karl Ruud
President and
Chief Executive Officer

Net income for the year ended December 31, 2013 was $26,515,000 or $1.48 per share - basic ($1.47 - diluted) on revenue of $167,533,000.

Comparative figures for 2012 were net income of $28,755,000 or $1.60 per share (basic and diluted) on revenue of $203,440,000. Funds flow from operations for the current year was $57,619,000 as compared to $59,412,000 in 2012, while net cash from operating activities for 2013 was $39,554,000 as compared to $41,988,000 in 2012. Commencing in 2013, the Company is reporting its financial results pursuant to a new accounting standard under International Financial Reporting Standards ("IFRS"), IFRS 11, whereby assets, liabilities, revenues and expenses of joint ventures are required to be reported on an equity accounting basis. This adoption, which had no effect on net income, has resulted in a reduction of revenue amounts that would have been reported if the Company were allowed to continue to report under the proportionate consolidation basis.

While AKITA's 2013 utilization was higher than industry's, both AKITA's and industry's utilization were lower than in 2012. For AKITA, the decline resulted from weaker demand for its conventional double and triple sized rigs. By contrast, AKITA's pad rigs continued to achieve strong utilization. Consequently, one of the Company's strategies has been the construction of new pad rigs or the conversion of conventional rigs into pad rigs when contracting opportunities warrant such changes. The following table highlights AKITA's utilization rates for the past five years:

Rig Utilization Rates

Percent	**2013**	2012	2011	2010	2009
AKITA Pad Rigs	**71.9**	61.7	67.9	67.4	59.5
AKITA Overall Fleet	**43.4**	48.3	51.5	37.8	31.1
Industry	**40.3**	41.6	49.6	40.7	24.6

Major capital projects in 2013 continued to focus on non-conventional assets in the Company's fleet. During the third quarter, AKITA completed its latest pad rig which is now operating on a multi-year contract drilling for heavy oil. Near year-end, AKITA converted a double sized rig into a pad rig for a one-year project. The Company is also converting a conventional double sized rig into a rig with slant drilling capability - the first slant rig developed by the Company. This rig is scheduled to be available for use during the second quarter of 2014. Additionally, during the third quarter of 2013, the Company announced that it had entered into a multi-year contract to construct and operate a new ultra-deep pad rig for use in the Liard Basin to help supply natural gas for anticipated upcoming liquified natural gas ("LNG") projects. This ultra-deep pad rig is on schedule and on budget and is anticipated to be completed by mid-2014.

At December 31, 2013, AKITA's fleet included 18 pad drilling rigs, up from 16 pad rigs at the end of 2012. In addition to its pad rigs, the Company also operates 20 conventional rigs that span all depth ranges. While AKITA's overall level of capital expenditures was lower in 2013 compared to 2012, the Company's Board and Management remain steadfast in their commitment to ensure that AKITA's rig fleet evolves in the most suitable manner to remain well positioned within the changing drilling environment.

AKITA consistently maintains the financial resources to accomplish its capital spending plans. In addition to having $18,998,000 in cash and term deposits at December 31, 2013, the Company has a long-term financing arrangement to provide up to $100,000,000 for capital expenditures and general corporate purposes. As such, the Company has great flexibility to meet future capital requirements.

AKITA is fully committed to the ongoing safety of its employees and regularly achieves one of the safest working records in the Canadian industry. The Company continually considers methods to eliminate or reduce hazards through the design of equipment and through the execution of evolving standardized operating procedures. In 2013, the Company's lost-time accident frequency was 0.13 accidents per 200,000 hours worked which was comparable with AKITA's best ever lost-time accident frequency of 0.12 established in 2012. Field employees complete extensive safety training and must meet current industry certifications. Managers, employees and subcontractors are all required to understand and accept their responsibility for maintaining a safe working environment.

On November 13, 2013, the Canadian Association of Oilwell Drilling Contractors ("CAODC") provided its industry drilling forecast for 2014 estimating 42% average rig utilization, compared to 40.3% average rig utilization in 2013. The current year estimate was based upon commodity price assumptions of US $90 per barrel for crude oil and CAD $3.23 per mcf for natural gas. Winter drilling activity to date appears to be supportive of the CAODC forecast. There remain, however, numerous risks to achieving this forecast, with perhaps two of the greatest being the risk in transportation capacity for heavy oil and the potential of delays to LNG related projects. In the event that LNG related projects proceed on the current anticipated sets of timelines, Management anticipates long-term opportunities for additional custom drilling rigs.

We wish to thank our team of dedicated employees who possess the skills, experience and commitment to make the most of the opportunities before us. We also appreciate AKITA's many aboriginal partners, who play a critical role in ensuring success for the Company's numerous joint ventures. In addition, we recognize the key role that our customers and suppliers play in attaining our objectives and we thank them for their support over this past year. Our directors' continued astute counsel and unwavering belief in AKITA are sincerely appreciated. Finally, we wish to thank our shareowners for the continued support and confidence that you place in your 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, 2014

Management's Discussion & Analysis

The following sets out management's discussion and analysis ("MD&A") of the consolidated financial position as at December 31, 2013 and 2012, 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, 2013 and 2012. 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 2013 and 2012, including the notes thereto, found on pages 32-64 of this Annual Report, provide information on the Company's financial position, results of its operations, cash flows and changes in shareholders' equity. Certain 2012 comparative numbers have been restated to conform with IFRS 11 "Joint Arrangements" and IAS 19 "Employee Benefits." Financial Statement Note 22 contains a reconciliation of the restatements. The information in this MD&A was approved by AKITA's Board of Directors on March 5, 2014 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

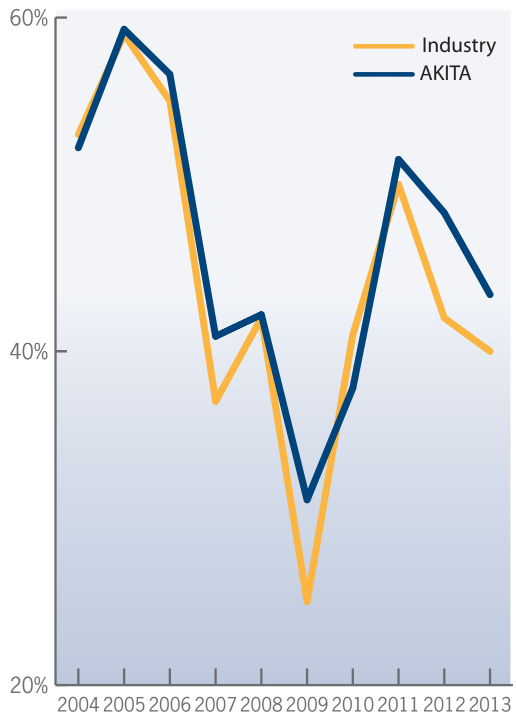
AKITA is a premier Canadian oil and gas drilling contractor. During 2013, the Company conducted operations in British Columbia, Alberta, Saskatchewan, and the Northwest Territories. The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and 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 and potash producers. All of the Company's 38 rigs were located in Western Canada at December 31, 2013.

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 2013, the Company constructed one pad rig to drill for heavy oil. Additionally, the Company completed the conversion of one conventional rig into a pad rig, commenced the conversion of a conventional rig into a rig with slant drilling capability and began the construction of a new ultra-deep pad rig under a long-term contract. These latest two rigs are expected to become operational during the second and third quarters of 2014, respectively.

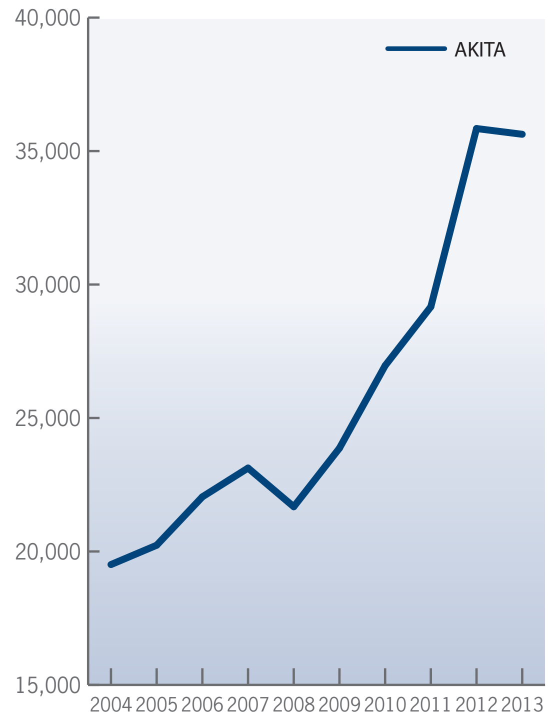
Oil and gas contract drilling activity is cyclical and is subject to numerous factors including world crude oil prices and North American natural gas prices. Overall demand for AKITA's drilling services declined somewhat in 2013 compared to 2012 as presented in the accompanying chart of rig utilization 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 in 2013.

AKITA's revenue per day, as presented in the accompanying chart of Revenue per Day, is increasingly influenced by the number of pad rigs in the Company's fleet. At December 31, 2013, 47% of the Company's rigs were pad rigs, up from 41% at the end of 2012, and up from 8% 10 years ago.

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 2004 to 2009 and under International Financial Reporting Standards ("IFRS") for the years 2010 to 2013. 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. Amounts reported for the years 2012 and 2013 have been adjusted to include the Company's proportionate share of revenue from joint ventures in addition to revenue reported in the financial statements. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items

Effective January 1, 2013, the Company adopted a new accounting standard under IFRS, IFRS 11 "Joint Arrangements", in relation to reporting its joint venture activities. Under IFRS 11, AKITA is required to report its joint venture assets, liabilities, revenues and expenses using the equity method of accounting. However, for purposes of analysis in this MD&A, the proportionate share of assets, liabilities and financial activities is included as non-standard information ("Adjusted") where appropriate. The Company provides the same drilling services and utilizes the same management, financial and reporting controls for its joint venture activities as are in place for its wholly owned operations.

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 influence of depreciation, overhead expenses, financing and income taxes. Management and certain investors may find "per operating day" measures for revenue and operating margin indicate pricing strength while operating and maintenance expense per operating day demonstrates the degree of cost control and provides a proxy for specific inflation rates 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 and singles, doubles and triples can also impact these results. Readers should also be aware that AKITA includes standby revenue, construction revenue and construction costs in its determination of "per operating day" results.

Funds flow from operations is considered as an additional GAAP measure. AKITA's method of determining funds flow from operations may differ from methods used by other companies and includes cash flow from operating activities before working capital changes as well as equity income from joint ventures adjusted for income tax amounts paid during the period. 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.

Revenue and Operating & Maintenance Expenses

$Millions	2013	2012	Change	% Change
Revenue per financial statements (1)	167.5	203.4	(35.9)	(18%)
Proportionate share of revenue from joint ventures (2)	48.9	37.8	11.1	29%
Adjusted revenue (2)	216.4	241.2	(24.8)	(10%)

$Millions	2013	2012	Change	% Change
Operating & maintenance expenses per financial statements (1)	106.3	137.9	(31.6)	(23%)
Proportionate share of operating & maintenance expenses from joint ventures (2)	29.5	23.1	6.4	28%
Adjusted operating & maintenance expenses (2)	135.8	161.0	(25.2)	(16%)

$Millions	2013	2012	Change	% Change
Adjusted revenue (2)	216.4	241.2	(24.8)	(10%)
Adjusted operating & maintenance expenses (2)	135.8	161.0	(25.2)	(16%)
Adjusted operating margin (1) (2) (3)	80.6	80.2	0.4	0%

$Dollars	2013	2012	Change	% Change
Adjusted revenue per operating day (2)	35,629	35,844	(215)	(1%)
Adjusted operating & maintenance expenses per operating day (2)	22,366	23,928	(1,562)	(7%)
Adjusted operating margin per operating day (2) (3)	13,263	11,916	1,347	11%

(1) Revenue, operating & maintenance expenses and adjusted 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) Proportionate share of revenue from joint ventures, adjusted revenue, proportionate share of operating & maintenance expenses from joint ventures, adjusted operating & maintenance expenses, adjusted operating margin, adjusted revenue per operating day, adjusted operating & maintenance expenses per operating day and adjusted operating margin per operating day are non-standard accounting measures. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

(3) Adjusted operating margin is the difference between adjusted revenue and adjusted operating & maintenance expenses.

Adjusted revenue of $216,374,000 in 2013 was 10% lower than the 2012 adjusted revenue of $241,232,000 largely as a result of weaker demand for the Company's conventional triple and double sized rigs. This drop in demand for conventional rigs was partially offset by continuing strong demand for the Company's pad rigs throughout 2013. In addition to contract drilling, annual results were also affected by a reduction in rig construction revenue from $17,940,000 in 2012 to $1,074,000 in 2013 as the Company's rig construction project was completed in the first quarter of 2013 and the rig was sold to a third party. During 2013, average revenue per operating day decreased marginally to $35,629 per day compared to $35,844 in 2012 as the loss of construction revenue noted above (which was factored into these "per operating day" statistics) was generally offset by the shift in rig mix to a higher proportion of pad rigs. Such rigs typically obtain higher day rates than conventional rigs.

Adjusted operating and maintenance costs are tied to activity levels and amounted to $135,827,000 or $22,366 per operating day during 2013 compared to $161,036,000 or $23,928 per operating day for the prior year. Reduced activity levels, the reduction in construction costs and the actual mix of rigs including the number and types of ancillary services provided resulted in lower operating and maintenance costs when considered on both an annual as well as a "per operating day" basis.

The Company's adjusted operating margin for 2013 was $80,547,000, up marginally from $80,196,000 in 2012. AKITA's higher level of pad rig activity, in an otherwise weaker drilling market, was sufficient to ensure the adjusted operating margin was sustained. Pad rig contracts typically result in higher operating margins than conventional rig contracts due to higher rig cost, complexity and associated ancillary services. On a "per operating day" basis, AKITA's operating margin rose in 2013 to $13,263 from $11,916 in 2012.

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on daywork contracts is measured based upon the passage of time in accordance with the terms of the contract. All drilling revenue generated in 2013 and 2012 was generated under daywork 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 prepayments 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, 2013, deferred revenue related to these activities totalled $334,000 (December 31, 2012 - $95,000).

AKITA provided drilling services to 21 different customers in 2013 (2012 - 40 different customers), including four customers that each provided more than 10% of AKITA's revenue for the year (2012 – two customers).

Depreciation and Amortization Expense

$Millions	2013	2012	Change	% Change
Depreciation and amortization expense	26.8	24.3	2.5	10%

Drilling rigs are generally depreciated using the unit of production method. Depreciation is typically calculated for each rig's major components resulting in an average useful life of 3,600 operating days per rig, subject to annual minimum imputed activity levels. Commencing in the fourth quarter of 2013, in certain instances where rigs are inactive for extended periods, the Company's depreciation rate is accelerated. 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 $26,825,000 during 2013 from $24,342,000 during 2012 was mostly attributable to the higher average cost base for drilling rigs which more than offset the decline in drilling activity. Drilling rig depreciation accounted for 96% of total depreciation and amortization expense in 2013 (2012 – 97%).

While AKITA conducts many of its drilling operations via joint ventures, the drilling rigs used to conduct those activities are owned jointly by AKITA and its joint venture partners, and not the joint ventures themselves.

Therefore, the joint ventures do not hold any property, plant, or equipment assets directly. Consequently, the depreciation balance reported above includes depreciation on assets involved in both wholly owned and joint ventured activities.

Selling and Administrative Expenses

$Millions	2013	2012	Change	% Change
Selling & administrative expenses per financial statements	18.2	18.5	(0.3)	(1%)
Proportionate share of selling & administrative expenses from joint ventures (1)	0.6	0.5	0.1	2%
Adjusted selling & administrative expenses (1)	18.8	19.0	(0.2)	(1%)

(1) Proportionate share of selling & administrative expenses from joint ventures and adjusted selling & administrative expenses are non-standard accounting measures. See commentary in "Basis of Analysis in this MD&A, Non-standard and Additional GAAP Items".

Adjusted selling and administrative expenses decreased marginally to $18,786,000 in 2013 from $18,935,000 in 2012. Adjusted selling and administrative expenses equated to 8.7% of total adjusted revenue in 2013, compared to 7.8% of total adjusted revenue in 2012, as a result of decreased adjusted revenue.

The single largest component of adjusted selling and administrative expenses was salaries and benefits which accounted for 60% of these expenses in 2013 (64% in 2012).

Equity Income from Joint Ventures

$Millions	2013	2012	Change	% Change
Proportionate share of revenue from joint ventures (1)	48.9	37.8	11.1	29%
Proportionate share of operating & maintenance expenses from joint ventures (1)	29.5	23.1	6.4	28%
Proportionate share of selling & administrative expenses from joint ventures (1)	0.6	0.5	0.1	20%
Equity income from joint ventures	18.8	14.2	4.6	32%

(1) Proportionate share of revenue from joint ventures, proportionate share of operating & maintenance expenses from joint ventures and proportionate share of selling & administrative expenses from joint ventures are non-standard accounting measures. See commentary in "Basis of Analysis in this MD&A, Non-standard and Additional GAAP Items".

The Company provides the same drilling services and utilizes the same management, financial and reporting controls for its joint venture activities as are in place for its wholly owned operations. The analyses of these activities are incorporated throughout the relevant sections of this MD&A. Joint venture activities are often located in some of the most prospective regions in Canada. Further, two thirds of AKITA's joint ventures utilize pad drilling rigs.

Other Income (Expense)

$Millions	2013	2012	Change	% Change
Interest income	0.3	0.4	(0.1)	(25%)
Interest expense	(0.1)	0.0	(0.1)	N/A
Gain on sale of joint venture interests in rigs and other assets	0.1	1.1	(1.0)	(91%)
Net other gains	0.4	0.0	0.4	N/A
Total other income	0.7	1.5	(0.8)	(53%)

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income decreased to $345,000 in 2013 from $385,000 in 2012 as a result of reduced cash and term deposit balances for most of 2013. The Company has undertaken significant capital expenditures related to the construction of new rigs and the conversion of conventional rigs into pad rigs, thereby reducing cash balances over time.

Interest expense of $108,000 (2012 – $4,000) has been accrued primarily to reflect the future cost of the Company's unfunded defined benefit pension plan.

During 2012, the Company disposed of its interests in its remaining two arctic drilling camps and other non-core assets resulting in a $1,082,000 gain. AKITA disposed of several minor assets in 2013, resulting in $106,000 in gains.

In 2013, amounts reported as "Net Other Gains" of $385,000 include unrealized amounts related to forward exchange contracts purchased to provide a hedge for foreign rig equipment commitments for a rig under construction ($235,000), an unrealized cost related to loan guarantees that the Company has provided on behalf of certain joint venture partners ($106,000) and other ($44,000).

Other than the foreign currency hedge on major capital expenditures noted above, readers should be aware that in 2013 the Company conducted all of its operations in Canada, thereby reducing its exposure to foreign currency fluctuations.

Income Tax Expense

$Millions, except income tax rate (%)	2013	2012	Change	% Change
Current tax	5.4	3.0	2.4	80%
Deferred tax	3.8	6.7	(2.9)	(43%)
Total income tax expense	9.2	9.7	(0.5)	(5%)
Effective income tax rate	25.7%	25.1%		

Income tax expense decreased to $9,167,000 in 2013 from $9,658,000 in 2012, due to lower pre-tax income which was partially offset by an increase in the Canadian federal income tax rate as a result of a change in provincial allocations of revenue and expenses. AKITA's proportion of income taxes that are deferred to future years has declined as a result of lower capital expenditures in 2013 when compared to the previous year.

Net Income, Funds Flow and Net Cash from Operating Activities

$Millions	2013	2012	Change	% Change
Net income	26.5	28.8	(2.3)	(8%)
Funds flow from operations (1)	57.6	59.4	(1.8)	(3%)

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

Net income attributable to shareholders decreased to $26,515,000 or $1.48 (basic) per Class A Non-Voting and Class B Common share ($1.47 - diluted) for 2013 from $28,755,000 or $1.60 per share (basic and diluted) in 2012. Funds flow from operations decreased to $57,619,000 in 2013 from $59,412,000 in 2012.

The net income decline in 2013 compared to 2012 was attributable to higher depreciation expense as a result of an increase in the number of pad drilling rigs in AKITA's fleet as well as having reduced "other income", particularly as it related to gains on sales of non-core or obsolete assets.

By contrast to net income, the $1,793,000 reduction in funds flow in 2013 compared to 2012 resulted from a significant decline in the portion of income taxes that are deferred to future periods, which was affected by reduced capital expenditures compared to 2012.

The following table reconciles funds flow from operations and net cash from operating activities:

$Millions	2013	2012	Change	% Change
Funds flow from operations (1)	57.6	59.4	(1.8)	(3%)
Change in non-cash working capital	0.3	0.0	0.3	N/A
Equity income from joint ventures	(18.8)	(14.2)	(4.6)	(32%)
Current income tax expense	5.4	3.0	2.4	80%
Income tax paid	(4.9)	(6.2)	1.3	21%
Other	0.0	(0.1)	0.1	N/A
Net cash from operating activities	39.6	41.9	(2.3)	(5%)

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

Fleet and Utilization

The following table summarizes rig changes that occurred in 2013:

Fleet Changes during 2013

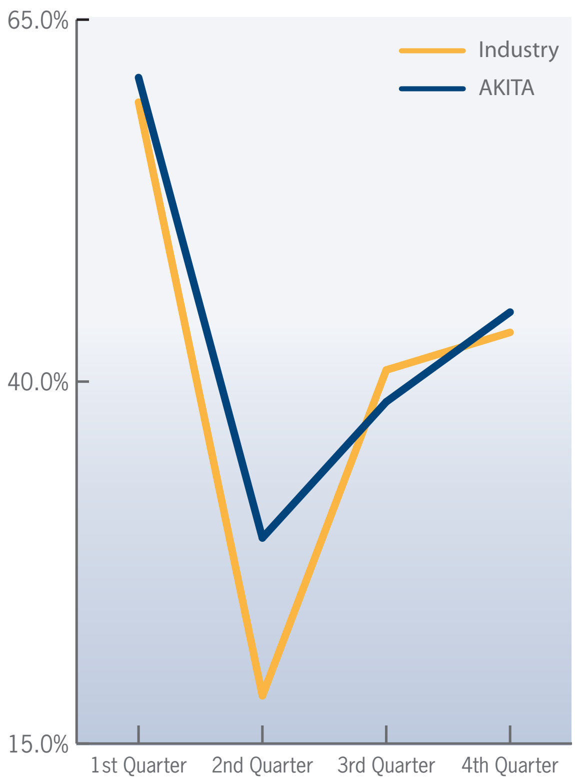
	Gross	Net
Number of rigs at December 31, 2012	39	35.875
Decommissioning of two rigs during the year	(2)	(2.000)
New rig completed during the year	1	0.850
Number of rigs at December 31, 2013	38	34.725

Utilization rates are a key statistic for the drilling industry since they measure revenue volume and influence pricing. During 2013, AKITA achieved 6,073 operating days, which corresponded to a utilization rate of 43.4% compared to an industry average utilization rate of 40.3% during the same period. During the comparative year in 2012, AKITA achieved 6,717 operating days, representing 48.3% 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 2013 drilling utilization rates compared to the industry average:

Cumulative Quarterly Drilling 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: Canadian Association of Oilwell Drilling Contractors ("CAODC").

In addition to traditional seasonal impacts, the business of AKITA may be 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. Specifically, there has been a shift 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 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, 2013	Conventional Rigs		Pad Rigs	
	Number of Rigs	Percent Utilization	Number of Rigs	Percent Utilization
Singles	8	34.8%	0	N/A
Doubles	7	20.1%	4	64.8%
Triples	5	11.6%	14	73.5%
Total	20	23.9%	18	71.9%

From time to time, the Company enters into drilling contracts for extended terms. At December 31, 2013, AKITA had seven rigs with multi-year contracts that extend into 2014 or beyond. Of these contracts, five are anticipated to expire 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, 2013 there were 817 drilling rigs registered with the CAODC (December 31, 2012 – 838). AKITA's drilling fleet of 38 rigs represented 4.6% of the total Canadian drilling fleet at December 31, 2013 (December 31, 2012 – 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
2013					
Revenue	**60,761**	**28,044**	**32,945**	**45,783**	**167,533**
Net income	**12,495**	**2,757**	**3,540**	**7,723**	**26,515**
Earnings per share (basic) ($)	**0.70**	**0.15**	**0.20**	**0.43**	**1.48**
Earnings per share (diluted) ($)	**0.70**	**0.15**	**0.19**	**0.43**	**1.47**
Funds flow from operations (1)	**19,985**	**9,121**	**11,300**	**17,213**	**57,619**
Cash flow from (used in) operations	**6,356**	**26,725**	**6,932**	**(459)**	**39,554**
2012					
Revenue	68,177	35,959	44,576	54,728	203,440
Net income	13,904	2,092	4,331	8,428	28,755
Earnings per share (basic and diluted) ($)	0.77	0.12	0.24	0.47	1.60
Funds flow from operations (1)	20,366	8,368	10,804	19,874	59,412
Cash flow from operations	5,142	23,367	742	12,737	41,988
2011					
Revenue (2)	57,444	31,651	54,874	55,965	199,934
Net income	7,952	1,498	6,926	6,977	23,353
Earnings per share (basic and diluted) ($)	0.44	0.08	0.38	0.39	1.29
Funds flow from operations (1) (2)	13,712	3,239	12,825	13,104	42,895
Cash flow from (used in) operations (2)	6,945	15,744	(1,989)	13,496	34,196

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

(2) During 2011 and prior years, AKITA reported its joint venture activities using the proportionate consolidation method of accounting which is not necessarily comparable to the equity method of accounting adopted pursuant to IFRS 11. See "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

During the fourth quarter of 2013, rig activity for the Company included 1,567 operating days compared to 1,533 operating days during the corresponding period in 2012. The increase in operating days compared to the corresponding quarter in 2012 was due to higher activity for AKITA's pad rigs, and was partially offset by fewer operating days for AKITA's conventional double and triple rigs. While operating days were higher in the fourth quarter of 2013 compared to the corresponding period in 2012, financial statement revenue of $45,783,000 (equivalent to $58,381,000 on an adjusted basis and $37,257 per operating day on an adjusted basis) was lower than fourth quarter 2012 financial statement revenue of $54,728,000 (equivalent to $65,542,000 on an adjusted basis or $41,826 per operating day on an adjusted basis), largely as a result of the Company not having construction revenue in the fourth quarter of 2013. Operating and maintenance costs, which are also tied to activity levels, decreased during the fourth quarter of 2013 to $36,273,000 or $23,148 per operating day on an adjusted basis from $44,232,000 or $28,227 per operating day on an adjusted basis during the corresponding quarter of 2012. The operating margin during the fourth quarter of 2013 was $22,108,000 or $14,108 per operating day on an adjusted basis compared to $21,310,000 or $13,599 per operating day on an adjusted basis during the fourth quarter of 2012. The higher operating margins were driven primarily by the increase in pad rig activity as the Company had two more pad rigs at the end of 2013 compared to the end of 2012.

Please refer to "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items" for commentary on adjusted revenue, adjusted operating and maintenance expense and adjusted margin.

Net income decreased to $7,723,000 or $0.43 per Class A Non-Voting and Class B Common share (basic and diluted) for the fourth quarter of 2013 from $8,428,000 or $0.47 per share (basic and diluted) in the fourth quarter of 2012. Funds flow from operations decreased to $17,213,000 in the fourth quarter of 2013 from $19,874,000 in the corresponding quarter in 2012. The decrease in net income that occurred in the fourth quarter of 2013 compared to the corresponding quarter in 2012 was the result of higher depreciation charges due to having a higher proportion of pad rigs that were active, since depreciation is charged on a usage basis and the average cost base of pad rigs is higher than for conventional rigs. Consistent with annual results, funds flow from operations was also negatively affected by having a lower portion of income taxes deferred to future periods when compared to the fourth quarter of 2012.

Overall liquidity increased at December 31, 2013 compared to the corresponding 2012 year-end date by $9,431,000 as measured in terms of overall working capital. In 2013, funds flow from operations was significantly higher than capital expenditures for the Company. AKITA's cash balance increased $2,995,000 on a year-over-year basis and was $13,998,000 at December 31, 2013 (December 31, 2012 - $11,003,000). In addition to cash, the Company held $5,000,000 in term deposits at December 31, 2013 (December 31, 2012 - $Nil).

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)	**2013**	2012	2011
Revenue	**167,533**	203,440	199,934
Net income	**26,515**	28,755	23,353
Basic earnings per share	**1.48**	1.60	1.29
Diluted earnings per share	**1.47**	1.60	1.29
Dividends per Class A Non-Voting and Class B Common share	**0.32**	0.28	0.28
Funds flow from operations (1)	**57,619**	59,412	42,895
Net cash from operating activities	**39,554**	41,998	34,196
Year-end working capital	**40,645**	31,214	44,265
Year-end other long-term liabilities	**25,400**	21,234	13,799
Year-end shareholders' equity	**245,288**	223,695	201,104
Year-end total assets	**291,748**	289,368	247,130

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

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 2013, AKITA's net capital expenditure program of $35,113,000 represented 61% of funds flow from operations, while in 2012, AKITA's net capital expenditure program of $65,356,000 represented 110% of funds flow from operations. In addition to routine capital expenditures, the Company added new rigs in each of 2013 and 2012 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, 2013, AKITA had $40,645,000 in working capital, including $13,998,000 in cash, compared to $31,214,000 in working capital, including $11,003,000 in cash, for the previous year. In 2013, AKITA generated $39,554,000 from operating activities. Cash was also generated from joint venture distributions ($13,525,000), from proceeds on exercise of stock options ($566,000) and from proceeds on sales of joint venture rigs and other assets ($443,000). During the same period, cash was used for capital expenditures ($37,290,000), payment of dividends ($5,567,000), investing in term deposits ($5,000,000), increasing restricted cash balances used for loan guarantees ($2,950,000) repurchasing Class A Non-Voting shares ($126,000), and payment of a loan commitment fee ($160,000).

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 2012 and the term was also extended for an additional year. In the fourth quarter of 2013, this facility was increased to $100,000,000 and the term was extended for an additional year to 2018. 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 facility has not been accessed since that date.

During the third quarter of 2013, the Company was awarded a contract to construct and operate an ultra-deep capacity rig on a long-term basis. The Company sourced approximately $16 Million of materials for this rig from non-Canadian suppliers. In order to minimize the risk of currency translation adjustments, AKITA purchased forward currency contracts totalling $13 Million, all of which remained outstanding at December 31, 2013. These contracts expire during the second quarter of 2014.

The Company had outstanding normal course issuer bids throughout most of 2013 and 2012. During 2013, the Company repurchased 9,065 Class A Non-Voting shares at an average price of $15.27 pursuant to its normal course issuer bid. During 2012, the Company repurchased 104,179 Class A Non-Voting shares at an average price of $10.48.

In 2009, AKITA renewed its lease for its head office. In 2013, the cost for this lease was $584,000. 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	**584**	584	Nil	Nil	Nil
Purchase obligations	**975**	325	650	Nil	Nil
Capital expenditure commitments	**22,104**	22,104	Nil	Nil	Nil
Pension obligations	**2,556**	Note	Note	Note	Note
Total contractual obligations	**26,219**	23,013	650	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 $59,000, from year one to three ranges from $30,000 to $124,000 annually, and from year four to five ranges from $30,000 to $156,000 annually, with the balance being due after five years in any event.

Property, Plant and Equipment

Capital expenditures totalled $35,113,000 in 2013. During the year, the Company completed the construction of a new pad rig for drilling heavy oil. In addition, AKITA completed the conversion of a conventional double rig into a pad rig. At December 31, 2013 the Company had two additional major capital projects in progress: the conversion of a conventional double rig into AKITA's first rig capable of drilling wells on a slant basis, as well as the ongoing construction of an ultra-deep pad rig. Both of these projects are scheduled to be completed in 2014. The cost incurred during 2013 for the four aforementioned rig construction projects was $13,617,000. Additional capital expenditures related to certifications and overhauls having a life in excess of one year ($8,666,000), rig equipment for existing rigs ($10,848,000), drill pipe and drill collars ($1,102,000), and other equipment ($880,000). Capital expenditures for 2012 totalled $65,356,000.

During 2013, the Company had no significant disposals of property, plant and equipment.

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 2013 or 2012 to carrying values as a result of this review.

Financial Instruments

The Company's financial assets and liabilities include cash, term deposits, accounts receivable, restricted cash, accounts payable, accrued liabilities and financial instruments. Fair values approximate carrying values unless otherwise stated.

The Company is exposed to changes in foreign exchange rates as capital expenditures or financial instruments may fluctuate due to changing rates. To mitigate this risk, in 2013 the Company entered into foreign exchange forward contracts that will mature in the second quarter of 2014. At December 31, 2013, the Company had outstanding contracts to buy a total of US$13 Million at an average rate of Canadian dollars 1.0499 to the US dollar. At December 31, 2013, these contracts were marked to market resulting in an unrealized foreign exchange gain of $235,000 that was recognized in the Consolidated Statement of Net Income and Comprehensive Income and has been classified on the Statement of Financial Position as an other current asset.

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 with Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. All related party transactions in 2012 and 2013 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Operating purchases totalled $390,000 and included sponsorship and advertising ($325,000) and other miscellaneous purchases ($65,000). During 2013, the Company renewed its multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2013, the remaining commitment was $975,000. Costs incurred related to this contract during 2013 were $325,000 (2012 - $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 $328,000.

The Company incurred legal fees of $83,000 (December 31, 2012 - $62,000) 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, 2013. At December 31, 2013, $1,000 (December 31, 2012 - $8,000) 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.

$Thousands	2013	2012
Revenue	78	80
Operating and maintenance costs	7,298	5,801
Selling and administrative costs	758	723
Year-end accounts receivable	2,948	1,960

Class A and Class B Share Dividends

Per Share	2013	2012	Change	% Change
Dividends per share ($)	0.32	0.28	0.04	14%

During 2013, AKITA declared dividends totalling $5,752,000 ($0.32 per share) on its Class A Non-Voting shares and Class B Common shares, compared to $5,038,000 ($0.28 per share) for 2012. The payment of any dividends is at the discretion of the Board of Directors and depends upon the financial condition of AKITA and other factors. Since the inception of the quarterly dividend program in 1997, dividends have been paid in each quarter of every year. The most recent dividend was declared on March 5, 2014 with a dividend rate of $0.085 per share.

Class A Non-Voting and Class B Common Shares

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
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, 2012	16,376,421	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
Shares repurchased in 2013	(9,065)	(12)	-	-	(9,065)	(12)
Stock options exercised in 2013	54,200	734	-	-	54,200	734
Conversions Class B to Class A	100	-	(100)	-	-	-
December 31, 2013	**16,319,377**	**22,542**	**1,653,784**	**1,366**	**17,973,261**	**23,908**
Exercisable options at Dec. 31, 2013	**240,100**					
Unexercisable options at Dec. 31, 2013	**206,900**					

At March 5, 2014, the Company had 16,298,277 Class A Non-Voting shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 447,000 stock options outstanding, of which 240,100 were exercisable.

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 Statement of Financial Position 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. Drilling rigs are depreciated using the unit of production method. Depreciation is calculated using a detailed approach based on major components, and typically results in an average useful life of 3,600 operating days per rig, subject to annual minimum imputed activity levels. Additionally, commencing in the fourth quarter of 2013, in certain instances in which rigs are inactive for extended periods, the depreciation rate is accelerated.

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 high.

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 $2,556,000 at December 31, 2013 (2012 - $2,348,000). AKITA's pension liability estimates do not have any effect on the changes to the 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 2013, a key assumption relates to the use of a 4.7% discount rate (2012 – 4.0%). 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. During the third quarter of 2013, the Company guaranteed bank loans made to joint venture partners totalling $2,812,000 for a period of four years. AKITA has provided assignments of monies on deposit totalling $5,950,000 with respect to these guarantees. AKITA's security from its partners for these guarantees includes interests in specific rig assets. The $5,950,000 in deposits has been classified as restricted cash on the Statement of Financial Position and is in addition to the $13,998,000 in cash held at December 31, 2013.

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. 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, 2012 or December 31, 2013.

AKITA continually upgrades its drilling fleet to ensure that it is able to meet ongoing and evolving customer requirements. The Company has a stringent 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 achieve this result.

Dependence on Major Customers

In 2013 AKITA earned 49.9% of total adjusted revenue from four major customers. These were the only four customers who individually provided over 10% of the Company's revenue for the 2013 fiscal year. The loss of one or more major customers or a significant reduction in the business done with any 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 are 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 (without limitation): 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; influences from special interest groups; 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 in individual provinces. These factors could lead to a decline in demand for AKITA's services which could result in a material adverse effect on AKITA's business, financial condition, results of 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, there are no assurances that AKITA will 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 a material adverse effect on the business, results of operations and financial condition of AKITA.

Labour

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

A number of AKITA's key customers evaluate the ability of contract drilling companies to provide and maintain a high standard of safe operations prior to 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 could lead to a general reduction in rates in the industry as a whole, which could have a material adverse effect on AKITA's business, financial condition, results of 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 governmental authorities, 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, or both.

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 transportation of crude oil and natural gas 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 2013 with 16 pad rigs. During the year, AKITA added one new pad rig suitable for steam assisted gravity drainage ("SAGD") drilling in the oil sands and upgraded a conventional double rig into a heavy oil pad rig on a one-year project. Consequently, at the end of 2013, AKITA had 18 pad rigs. In addition, at year-end, the Company was constructing a new ultra-deep capacity pad rig for delivery in mid-2014. This rig is expected to drill liquified natural gas ("LNG") related prospects on a multi-year basis.

Of AKITA's 18 pad rigs, 12 are focused on drilling projects that are associated with the development of heavy oil. Management ranks this opportunity as "reasonably steady" and expects the Company's existing pad rigs to continue to have ongoing demand. However, pending further infrastructure to move additional heavy oil to markets in either the US or offshore, management does not expect a significant number of new opportunities to develop in the short term.

Natural gas focused pad rigs constitute the next most significant portion of AKITA's fleet. At December 31, 2013, the Company had five rigs working or available to drill this resource. While natural gas related pad drilling activity has been more volatile during the past year than oil related pad drilling, management anticipates market conditions in 2014 will become somewhat stronger and more stable than during 2013. As well, management anticipates that opportunities for additional new or retrofitted rigs will be forthcoming in the near term, subject to sufficient ongoing progress on the development of LNG projects by AKITA's customers.

In addition to pad drilling for heavy oil and natural gas, the Company owns one pad rig that is currently drilling for potash. AKITA also operates a pad rig that it constructed and sold to a customer to drill potash resources. The initial drilling phase of the project that both rigs are working on is nearing completion, at which time AKITA anticipates redeploying and upgrading its owned rig into a rig targeting either heavy oil or natural gas. The customer owned rig is anticipated to be operated by AKITA on the next phase of its potash project.

Demand for shallow capacity conventional rigs is highly seasonal and the current 2014 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 2013. AKITA has eight rigs in this category.

Demand is anticipated to remain weak for conventional light double capacity rigs in 2014. As a consequence, the Company is converting one of its three conventional doubles into a slant capable rig. This rig, which is anticipated to become available for use during the second quarter of 2014, will become AKITA's first slant rig.

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 2014 and potentially beyond. The Company has four rigs that are suitable for this market.

Opportunities for deep and ultra-deep conventional rigs improved at the end of 2013 and are expected to be better than 2013 during the first half of 2014 and potentially beyond. Several of the Company's rigs in this category are also candidates for future conversions into pad rigs targeting natural gas for LNG projects. AKITA has five rigs in this category.

On November 13, 2013, the Canadian Association of Oilwell Drilling Contractors ("CAODC") released its 2014 industry drilling forecast estimating 42% average rig utilization compared to 40.3% actual average rig utilization in 2013. The 2014 forecast was based upon commodity price assumptions of US $90 per barrel for crude oil and CAD $3.23 per mcf for natural gas. While risks exist to achieving this annual forecast, winter drilling activity to date appears to be supportive of the CAODC forecast.

The Company remains well positioned in terms of drilling potential for shallow and deep natural gas and heavy and conventional crude oil. AKITA has the experience, personnel and financial resources to increase its presence in Western Canada. Further, AKITA has successfully demonstrated its ability to convert conventional rigs into pad configurations and is also currently constructing its first slant-capable rig. 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, 2013, 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, 2013.

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

There are no announced upcoming accounting standards (IFRS) changes that will affect AKITA in the near term.

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, 2014. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2013 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.

AKITA Rig 45 drilling at Fox Creek, Northwest Alberta

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 accounting principles generally accepted in Canada. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated financial statements and have had full access to the Audit Committee. Their report appears on page 31.

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, 2013, December 31, 2012 and January 1, 2012 and the consolidated statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2013 and 2012, 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, 2013, December 31, 2012 and January 1, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
February 28, 2014

Consolidated Statements of Financial Position

$Thousands		December 31, 2013	December 31, 2012 (1)	January 1, 2012 (1)
Assets				
Current Assets				
Cash		$ 13,998	$ 11,003	$ 14,553
Term deposits	Note 5	5,000	-	9,500
Accounts receivable	Note 6	42,342	60,004	45,427
Income taxes recoverable		-	4,487	-
Prepaid expenses and other		365	159	413
		61,705	75,653	69,893
Non-current Assets				
Restricted cash	Note 7	5,950	3,000	3,000
Other long term assets		1,017	921	826
Investments in joint ventures	Note 8	10,092	4,825	5,672
Property, plant and equipment	Note 9	212,984	204,969	166,812
Total Assets		$ 291,748	$ 289,368	$ 246,203
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	Note 10	$ 18,865	$ 43,089	$ 26,623
Deferred revenue		334	95	146
Dividends payable	Note 18	1,439	1,255	1,262
Income taxes payable		422	-	3,269
		21,060	44,439	31,300
Non-current Liabilities				
Financial instruments	Note 6	106	-	-
Deferred income taxes	Note 11	22,738	18,886	12,151
Pension liability	Note 12	2,556	2,348	1,982
Total Liabilities		46,460	65,673	45,433
Shareholders' Equity				
Class A and Class B shares	Note 13	23,908	23,186	23,308
Contributed surplus		3,185	3,060	2,758
Accumulated other comprehensive income		88	(21)	-
Retained earnings		218,107	197,470	174,704
Total Equity		245,288	223,695	200,770
Total Liabilities and Equity		$ 291,748	$ 289,368	$ 246,203

(1) Certain comparative figures have been restated to conform with IFRS 11 and IAS 19 (Note 22).
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 2013	2012 (1)
Revenue	Note 14	$ 167,533	$ 203,440
Costs and expenses			
Operating and maintenance	Note 15	106,281	137,854
Depreciation and amortization	Note 9	26,825	24,342
Selling and administrative	Note 15	18,265	18,462
Total costs and expenses		151,371	180,658
Revenue less costs and expenses		16,162	22,782
Equity income from joint ventures	Note 8	18,792	14,163
Other income (losses)			
Interest income		345	385
Interest expense		(108)	(4)
Gain on sale of joint venture interests in rigs and other assets		106	1,082
Net other gains		385	5
Total other income		728	1,468
Income before income taxes		35,682	38,413
Income taxes	Note 11	9,167	9,658
Net income for the year attributable to shareholders		26,515	28,755
Other comprehensive income (loss)		109	(21)
Comprehensive income for the year attributable to shareholders		$ 26,624	$ 28,734

Net income per Class A and Class B Share	Note 17		
Basic		$ 1.48	$ 1.60
Diluted		$ 1.47	$ 1.60

(1) Certain comparative figures have been restated to conform with IFRS 11 and IAS 19 (Note 22).
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 (1)	Retained Earnings (1)	Total Equity
Balance at December 31, 2011	$ 21,942	$ 1,366	$ 23,308	$ 2,758	$ -	$174,704	200,770
Net income for the year	-	-	-	-	-	28,755	28,755
Change in accounting policy (IAS 19)	-	-	-	-	(21)	-	(21)
Shares repurchased	(140)	-	(140)	-	-	(951)	(1,091)
Stock options exercised	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	$ (21)	$197,470	$223,695
Net income for the year	-	-	-	-	-	26,515	26,515
Remeasurement of pension liability	-	-	-	-	109	-	109
Shares repurchased	(12)	-	(12)	-	-	(126)	(138)
Stock options exercised	734	-	734	(168)	-	-	566
Stock options charged to expense	-	-	-	293	-	-	293
Dividends	-	-	-	-	-	(5,752)	(5,752)
Balance at December 31, 2013	**$ 22,542**	**$ 1,366**	**$ 23,908**	**$ 3,185**	**$ 88**	**$218,107**	**$245,288**

(1) Certain comparative figures have been restated to conform with IFRS 11 and IAS 19 (Note 22).
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

$Thousands		Year Ended December 31 2013	2012 [1]
Operating Activities			
Net income		$ 26,515	$ 28,755
Non-cash items included in net income			
Depreciation and amortization	Note 9	26,825	24,342
Deferred income taxes	Note 11	3,852	6,742
Expense for defined benefit pension plan	Note 12	369	353
Stock options charged to expense	Note 16	293	302
Gain on sale of joint venture interests in rigs and other assets		(106)	(1,082)
Unrealized foreign currency gain	Note 6	(235)	-
Unrealized loss on financial guarantee contracts	Note 6	106	-
Funds flow from operations		57,619	59,412
Change in non-cash working capital:			
Accounts receivable		17,662	(14,577)
Prepaid expenses and other		(206)	254
Income taxes recoverable		4,487	(4,487)
Accounts payable and accrued liabilities		(21,866)	18,884
Deferred revenue		239	(51)
		316	23
Equity income from joint ventures	Note 8	(18,792)	(14,163)
Pension benefits paid	Note 12	(15)	(15)
Interest paid		4	-
Income taxes expense - current	Note 11	5,352	2,916
Income taxes paid		(4,930)	(6,185)
Net cash from operating activities		39,554	41,988
Investing Activities			
Capital expenditures	Note 9	(35,113)	(65,356)
Change in non-cash working capital related to capital		(2,177)	(2,425)
Net distributions from investments in joint ventures	Note 8	13,525	15,010
Change in cash restricted for loan guarantees	Note 7	(2,950)	-
Change in term deposits	Note 5	(5,000)	9,500
Proceeds on sale of joint venture interests in rigs and other assets		443	3,984
Net cash used in investing activities		(31,272)	(39,287)
Financing Activities			
Dividends paid		(5,567)	(5,038)
Proceeds received on exercise of stock options		566	18
Repurchase of share capital	Note 13	(126)	(1,091)
Loan commitment fee paid		(160)	(140)
Net cash used in financing activities		(5,287)	(6,251)
Increase (decrease) in cash and cash equivalents		2,995	(3,550)
Cash and cash equivalents, beginning of year		11,003	14,553
Cash and Cash Equivalents, End of Year		$ 13,998	$ 11,003

(1) Certain comparative figures have been restated to conform with IFRS 11 and IAS 19 (Note 22).
The accompanying notes are an integral part of these consolidated financial statements.

AKITA Rig 22 drilling at Peace River, Alberta

Photo credit: F. Biggeman

Notes to the Consolidated Financial Statements - Index

Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and December 31, 2012

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company") provide contract drilling services, primarily to the oil and gas industry. The Company owns and operates 38 drilling rigs (34.725 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

The consolidated financial statements for the year ended December 31, 2013, 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, 2014, 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, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through the Consolidated Statement of Income and Comprehensive Income.

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 control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases.

Joint arrangements

The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint ventures), the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. Unrealized gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The accounting policies of the joint ventures 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.

Financial instruments

Recognition and measurement

The Company's financial assets and liabilities include cash, term deposits, restricted cash, accounts receivable, accounts payable and accrued liabilities, and financial instruments. Due to the short-term nature of the Company's financial instruments, fair values approximate carrying values unless otherwise stated.

Classification

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. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. 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.

The Company's loans and receivables are comprised of cash, term deposits, restricted cash and trade receivables.

(ii) Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

The Company's financial assets at fair value through profit or loss consist of unrealized gains on forward exchange contracts.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost 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.

The Company's financial liabilities at amortized cost include accounts payable and accrued liabilities.

(iv) Financial liabilities at fair value through profit or loss: Financial liabilities at fair value through profit or loss are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company's financial liabilities at fair value through profit or loss are comprised of unrealized losses on forward exchange contracts and financial guarantee contracts.

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.

Translation of foreign currencies

Translation to 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.

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.

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 that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Property, plant and equipment

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

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

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

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

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

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

Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 4% to 25% per annum.

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 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 Statement of Financial Position 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 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, deferred 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 Statement of Financial Position 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 in the Statement of Financial Position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the Statement of Financial Position date. The cost of the defined benefit plan 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. Past service costs are recognized in net income when incurred. Post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income.

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 contributed surplus over the vesting period of the respective plan. When stock options are exercised, shares are issued and the amount of the proceeds, together with the amount recorded in contributed surplus, is recognized in share capital. 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 Statement of Financial Position date through the Statement of Net Income and Comprehensive Income until settlement.

Additional GAAP Measure

Funds flow from operations is not a Generally Accepted Accounting Principle ("GAAP") measure under IFRS, however it is an additional GAAP measure. 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 Statement of Financial Position 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, 2013, drilling rig depreciation could be either increased or decreased by $2,238,000 (2012 - $1,940,000). 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 at the financial asset'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 $2,556,000 at December 31, 2013 (December 31, 2012 - $2,348,000). 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 2013, a key assumption relates to the use of a 4.7% (2012 – 4.0%) discount rate. From the perspective of a sensitivity analysis, a 1% increase in the discount rate would result in a $340,000 increase in the defined benefit obligation while a 1% decrease in the discount rate would result in a $415,000 decrease in the defined benefit obligation. 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.

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. Term deposits

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

$Thousands	December 31 2013	December 31 2012
Term deposits	$ 5,000	$ -

Effective interest rate (%) on term deposits	1.5	N/A
Average number of days from year-end to maturity for term deposits	20	N/A

6. Financial Instruments

Operating Loan Facility

During the fourth quarter of 2013 the Company increased its operating loan facility to $100,000,000 and extended its term for an additional year until 2018. During 2011, the Company established an operating loan facility totaling $50,000,000 with an initial five year term with its principal banker and 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. 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. 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, as per the loan agreement, consists of all accounts receivable, inventory, unrestricted cash, term deposits and cash equivalents and the net book value of fixed assets.

The Company did not access the loan facility in 2013. The Company accessed the loan facility during the second quarter of 2012 on a short-term basis, having repaid the amount borrowed prior to June 30, 2012.

Contracts measured at fair value

Forward exchange contracts

During the third quarter of 2013 the Company entered into a forward exchange contract as a risk management strategy. Forward exchange contracts are included in current assets/liabilities except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets/ liabilities. The Company has not designated any of its forward exchange contracts as effective accounting hedges and, accordingly, fair values its forward exchange contracts with the resulting gains and losses recorded in the Consolidated Statement of Net Income and Comprehensive Income.

The fair value of the forward exchange contracts is determined by the difference between the contracted foreign exchange rates and the foreign exchange forward rates at the period end date using the contracted amounts. The fair value measurement of the forward exchange contracts has a fair value hierarchy of Level 2.

Financial Guarantee Contracts

The Company guaranteed bank loans made to joint venture partners and has provided an assignment of monies on deposit with respect to these loans. The Company has recorded the loan guarantee benefit at its fair value of $106,000 (2012 - $nil). The fair value measurement of the financial guarantee benefit has a fair value hierarchy of Level 2.

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 2013	December 31 2012
Within 30 days	$ 32,315	$ 48,585
31 to 60 days	7,815	7,162
61 - 90 days	2,028	3,293
Over 90 days	290	1,074
Allowance for doubtful accounts	(106)	(110)
Accounts receivable	$ 42,342	$ 60,004

Foreign Currency Risk

The Company is exposed to changes in foreign exchange rates as capital expenditures or financial instruments may fluctuate due to changing rates. To mitigate this risk the Company entered into foreign exchange forward contracts that will mature in the second quarter of 2014. At December 31, 2013, the Company had outstanding contracts to buy a total of US$13 Million at an average rate of Canadian dollars 1.0499 to the US dollar. At December 31, 2013, these contracts were marked to market resulting in an unrealized foreign exchange gain of $235,000 (2012 - $nil) that was recognized in the Consolidated Statement of Net Income and Comprehensive Income and has been classified on the Statement of Financial Position as other current assets.

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2013 and December 31, 2012, this risk was limited by having substantial cash balances, strong cash flows from operations and a banking facility sufficient to meet all current liabilities. All working capital amounts at December 31 are due within one year.

Significant Customers

During 2013, four customers (2012 – two customers) each provided more than 10% of the Company's revenue. While the loss of one or more of these customers may have a material adverse affect on the financial results of the Company, in management's assessment, the future viability of the Company is not dependent upon these major customers.

7. Restricted Cash

$Thousands	December 31 2013	December 31 2012
Balance held in bank liquid deposit instruments	$ 5,950	$ 3,000

During 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.

During the third quarter of 2013, the Company guaranteed additional bank loans made to joint venture partners totaling $2,812,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $2,950,000 with respect to these loans.

The Company's security from its partners for these guarantees includes interests in specific rig assets. The Company has recorded the loan guarantee benefit at its fair value.

8. Investments in Joint Ventures

Joint Venture Interests

The Company conducts certain rig operations via joint ventures with aboriginal partners whereby rig assets are jointly owned. Currently, there are 22 different aboriginal groups with equity investments in ten of AKITA's rigs. These equity investments are facilitated through joint venture agreements. Each joint venture operates the rig with the joint venture partners owning a share of each rig directly. The equity ownership for each aboriginal partner varies between rigs and groups and ranges from 5% to 50% per group per rig.

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 Company accounts for the joint venture interests using the equity method of accounting. The following table lists the Company's active 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 26	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 63	Canada	50%

Continuity of Investments in Joint Ventures

$Thousands	Investments in Joint Ventures
Balance as at December 31, 2011	$ 5,672
Net income for the year ended December 31, 2012	14,163
Distributions for the year ended December 31, 2012	(15,229)
Disposition of joint venture interest	219
Balance as at December 31, 2012	4,825
Net income for the year ended December 31, 2013	18,792
Distributions for the year ended December 31, 2013	(13,525)
Balance as at December 31, 2013	**$ 10,092**

Summarized Joint Venture Financial Information

This summarized financial information is the aggregate of the joint ventures' IFRS financial statements. AKITA recognizes its proportionate share of the Joint Ventures' financial results.

Summarized Joint Venture Financial Information (100%)

$Thousands	December 31 2013	December 31 2012
Cash and cash equivalents	$ 10,291	$ 3,030
Other current assets	8,681	8,408
Total Assets	18,972	11,438
Current liabilities	5,558	3,190
Non-current liabilities	914	1,400
Total Liabilities	6,472	4,590
Net Assets	$ 12,500	$ 6,848
Revenue	$ 63,614	$ 57,637
Interest income	$ 100	$ 54
Net income and comprehensive income	$ 23,455	$ 20,661

9. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Additions	-	34,145	968	35,113
Disposals	-	(6,521)	(606)	(7,127)
Balance as at December 31, 2013	**$ 4,240**	**$ 387,286**	**$ 7,816**	**$ 399,342**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Disposals	-	(6,185)	(606)	(6,791)
Depreciation expense	88	25,736	938	26,762
Balance as at December 31, 2013	**$ 1,168**	**$ 179,790**	**$ 5,400**	**$ 186,358**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
As at December 31, 2013	**$ 3,072**	**$ 207,496**	**$ 2,416**	**$ 212,984**

At December 31, 2013, the Company had $9,064,000 in Property, Plant and Equipment that was not being depreciated, as these assets were under construction (December 31, 2012 – $12,256,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $63,000 for the year ended December 31, 2013 (2012- $45,000).

10. Accounts Payable and Accrued Liabilities

$Thousands	December 31 2013	December 31 2012
Trade payables	$ 7,315	$ 13,218
Statutory liabilities	10,119	28,072
Accrued expenses	1,431	1,799
	$ 18,865	$ 43,089

11. Income Taxes

Income tax expense is comprised of the following:

	Year Ended	
$Thousands	December 31 2013	December 31 2012
Current tax expense	$ 5,352	$ 2,916
Deferred tax expense	3,815	6,742
	$ 9,167	$ 9,658

The following table reconciles the income tax expense using a weighted average Canadian federal and provincial rate of 25.49% (2012 – 25.36%) to the reported tax expense. The rate increase is due to more of the Company's revenue being earned in provinces with higher tax rates. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements, in accordance with IFRS.

	Year Ended	
$Thousands	December 31 2013	December 31 2012
Income before income taxes	$ 35,682	$ 38,413
Expected income tax at statutory rate of 25.49% (2012 – 25.36%)	9,095	9,724
Add (Deduct):		
Change in deferred income tax rates	94	(15)
Permanent differences	103	169
Return to provision adjustment	(11)	(97)
Other	(114)	(123)
Income tax expense	$ 9,167	$ 9,658

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, 2011	$ 12,146	$ (503)	$ 508	$ 12,151
Charged/(credited) to net income	6,770	(85)	57	6,742
Charged/(credited) to OCI	-	(7)	-	(7)
Balance as at December 31, 2012	18,916	(595)	565	18,886
Charged/(credited) to net income	3,885	(94)	24	3,815
Charged/(credited) to OCI	-	37	-	37
Balance as at December 31, 2013	**$ 22,801**	**$ (652)**	**$ 589**	**$ 22,738**

12. Pension Liability

The Company obtains an actuarial valuation from an independent actuary subsequent to each year-end or if circumstances change. The most recent evaluation was dated January 17, 2014 and was utilized in measuring the December 31, 2013 balances.

$Thousands	2013	2012
Actuarial present value of defined benefit obligation at January 1	$ 2,348	$ 1,982
Interest cost	104	95
Current service cost	265	259
Benefits paid	(15)	(15)
Unrealized actuarial (gain) loss	(146)	27
Actuarial present value of defined benefit obligation at December 31	$ 2,556	$ 2,348

Key Assumptions:

%	December 31 2013	December 31 2012
Discount rate	4.70	4.00

The anticipated retirement age of the plan members is 61 to 65 years (2012 – 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 and interest expense and is comprised of the following:

	Year Ended	
$Thousands	December 31 2013	December 31 2012
Defined benefit plan		
Interest cost	$ 104	$ 95
Current service cost	265	258
Expense for defined benefit plan	369	353
Expense for defined contribution plan	5,199	4,543
	$ 5,568	$ 4,896

13. Share Capital

Authorized:

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

Issued:

- All issued shares are fully paid

(Number of Shares)	Class A Non-Voting	Class B Common	Total
Shares outstanding at December 31, 2011	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**
Shares repurchased in 2013	(9,065)	-	(9,065)
Stock options exercised in 2013	54,200	-	54,200
Conversions Class B to Class A shares	100	(100)	-
Shares outstanding at December 31, 2013	**16,319,477**	**1,653,784**	**17,973,261**

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, 2014 represented 86.4% of the Class B Common shares. Sentgraf Enterprises Ltd. also owns 4,506,277 Class A Non-Voting shares, which at March 5, 2014 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 2013 and 2012 for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2013, 9,065 shares were repurchased and cancelled under normal course issuer bids at a cost of $138,000 of which $12,000 was charged to share capital and $126,000 was charged to retained earnings. 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. The most recent offer will expire on May 29, 2014.

14. Revenue

Revenue is comprised of the following:

	Year Ended	
$Thousands	**December 31 2013**	December 31 2012
Contracting drilling services	**$ 166,459**	$ 185,500
Rig construction	**1,074**	17,940
Total revenue	**$ 167,533**	$ 203,440

15. 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 2013	December 31 2012
Expenses		
Salaries, wages and benefits	$ 88,520	$ 91,645
Materials and supplies	11,563	36,102
Repairs and maintenance	16,285	20,180
External services and facilities	8,178	8,389
	$ 124,546	$ 156,316
Allocated to:		
Operating and maintenance	$ 106,281	$ 137,854
Selling and administrative	18,265	18,462
	$ 124,546	$ 156,316

16. Stock-based Compensation Plans

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

(Number of Options)	December 31 2013	December 31 2012
Reserved under current stock option plan	1,700,000	1,700,000
Balance at beginning of year	677,500	779,500
Granted during the year	(108,500)	(102,500)
Available for future issuance	569,000	677,000

The Company did not have any outstanding SARs during either 2013 or 2012; 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, 2013 and 2012, and changes during the years ended on those dates is presented below:

	2013		2012	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Options outstanding at January 1	442,000	10.22	341,500	10.01
Options granted	108,500	13.81	102,500	10.86
Options exercised	(54,200)	9.94	(2,000)	8.41
Options expired	(49,300)	9.94	-	-
Options outstanding at December 31	447,000	11.67	442,000	10.22
Options exercisable at December 31	240,100	10.48	217,200	10.04

The following table summarizes outstanding stock options at December 31:

		2013			2012		
Vesting Period (Years)	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
3	9.94	-	-	-	12,000	0.2	12,000
5	9.94	-	-	-	24,000	0.2	24,000
8	9.94	-	-	-	44,000	0.2	44,000
5	9.87	150,000	6.2	120,000	157,500	7.2	94,500
3	10.32	6,000	7.2	6,000	6,000	8.2	3,000
6	10.32	91,000	7.2	54,600	96,000	8.2	19,200
5	10.86	97,500	8.2	39,000	102,500	9.2	20,500
5	13.81	102,500	9.7	20,500			
Weighted Average Contractual Life			6.3			6.6	

The Company recorded $293,000 in compensation expense for the year ended December 31, 2013 (2012 - $302,000) 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:

	2013	2012
Risk free interest rate	2.18%	1.49%
Expected volatility	33.7%	34.9%
Dividends yield rate	3.40%	2.60%
Option life	5.4 years	4.5 years
Weighted average share price	$ 13.81	$ 10.86
Forfeiture rate	0.00%	0.00%
Fair value of options	$ 3.50	$ 2.74

17. Net Income per Share

	Year Ended	
	December 31 2013	December 31 2012
Net income ($Thousands)	**$ 26,515**	$ 28,755
Weighted average outstanding shares	**17,969,415**	17,988,552
Incremental shares for diluted earnings per share calculation	**86,567**	2,439
Weighted average outstanding shares for diluted earnings per share	**18,055,982**	17,990,991
Basic earnings per share ($)	**$ 1.48**	$ 1.60
Diluted earnings per share ($)	**$ 1.47**	$ 1.60

18. 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, 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
March, 2013	**April, 2013**	**0.08**	**1,439**
May, 2013	**July, 2013**	**0.08**	**1,437**
August, 2013	**September, 2013**	**0.08**	**1,435**
November, 2013	**January, 2014**	**0.08**	**1,439**

19. Segmented Information

The Company operates in one business and geographic segment that provides contract drilling services, primarily to the oil and gas industry and in some circumstances to the mining industry.

20. 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 13). The accompanying table summarizes transactions and period balances with those affiliates.

	Year Ended	
$Thousands	**December 31 2013**	December 31 2012
Revenue (computer services, rent)	**$ 76**	$ 76
Purchases		
Property, plant and equipment (wellsite trailers)	**328**	688
Operating (sponsorship and advertising (Note 21), other)	**390**	401
Purchase commitments (capital)	**-**	13
Year end accounts receivable	**-**	3
Year end accounts payable	**5**	30

b. Joint Ventures

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

	Year Ended	
$Thousands	**December 31 2013**	December 31 2012
Revenue	**$ 78**	$ 80
Operating costs	**7,298**	5,801
Selling and administrative costs	**758**	723
Year end accounts receivable	**2,948**	1,960

c. Legal fees

The Company incurred legal fees of $83,000 (2012 - $62,000) 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, 2013. At December 31, 2013, $1,000 (December 31, 2012 - $8,000) 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:

	Year Ended	
$Thousands	**December 31 2013**	December 31 2012
Salaries, directors fees and other short-term benefits	**$ 3,638**	$ 3,638
Post-employment benefits	**497**	555
Share-based payments	**547**	469
Year end compensation payable	**1,505**	1,305

21. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2013, the Company had seven rigs, including five joint venture rigs, with multi-year contracts. Of these contracts, five are anticipated to expire 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 2013 (2012 - $325,000).

The Company leases its office space at an annual cost of approximately $584,000 per year. This lease expires on December 31, 2014.

At December 31, 2013, the Company had capital expenditure commitments of $22,104,000 due in 2014 (2012 – $5,796,000 due in 2013).

22. Changes in Accounting Policies and Estimates

Drilling rigs are subject to certain minimum annual depreciation. Commencing in the fourth quarter of 2013, in certain instances in which rigs are inactive for extended periods, the depreciation rate was accelerated. In 2013 this change resulted in an increase of $25,000 to depreciation expense.

The Company has adopted the following new and revised standards, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

a. **IFRS 11**, **"Joint Arrangements"**
IFRS 11 supersedes IAS 31, "Interests in Joint Ventures", and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, "Investments in Associates and Joint Ventures" (amended in 2011).

The Company has reclassified its investment in its joint ventures from jointly controlled entities to joint ventures. The Company's interests in its joint ventures were previously accounted for using the proportionate consolidation method and now are being accounted for using the equity method. As a result of this change in accounting policy, the investments in joint ventures at January 1, 2012 have been recognized at the net carrying amount of the assets and liabilities of the joint ventures previously proportionately consolidated by the Company. The Company assessed whether the investments were impaired as at January 1, 2012 and determined no impairment existed. Subsequent to January 1, 2012, the Company has accounted for its investments using the equity method of accounting.

The adjustments for each financial statement line item affected are presented in the tables on the following pages.

b. **IAS 19**, **"Employee Benefits"**
IAS 19 (Revised 2011) amends certain accounting requirements for defined benefit pension plans and termination benefits. IAS 19 (Revised 2011) requires the net defined benefit liability (asset) to be recognized on the Statement of Financial Position without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest

component) and any change in the asset ceiling are recognized in other comprehensive income. The Company continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income. The Company recognizes interest expense (income) on net post-employment benefits liabilities (assets) in interest expense (income) in the Consolidated Statement of Net Income and Comprehensive Income.

The Company adopted these amendments retrospectively and adjusted its opening equity as at January 1, 2012 to recognize previously unrecognized past service costs and adjustments to the asset ceiling for post-employment plans. The post-employment benefits' finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit pension plans.

The adjustments for each financial statement line item affected are presented in the tables on the following pages.

c. **IAS 1, "Presentation of Financial Statements"**
The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

d. **IFRS 10, "Consolidated Financial Statements"**
IFRS 10 replaces the guidance on control and consolidation in IAS 27, "Consolidated and Separate Financial Statements", and SIC-12, "Consolidation – Special Purpose Entities". IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

e. **IFRS 13, "Fair Value Measurement"**
IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The following tables present the reconciliation of the impact of the IFRS 11, "Joint Arrangements' and IAS 19, "Employee Benefits" accounting policy changes to the financial statements.

i. Reconciliation of Financial Position at January 1, 2012 - date of transition;

ii. Reconciliation of Financial Position at December 31, 2012;

iii. Reconciliation of Net Income and Comprehensive Income for the year ended December 31, 2012; and

iv. Reconciliation of Cash Flows for the year ended December 31, 2012.

Reconciliation of Financial Position January 1, 2012

$Thousands	Before Accounting Policy Changes	Adjustments for changes in accounting policies: IFRS 11 (1)	Adjustments for changes in accounting policies: IAS 19 (2)	After Accounting Policy Changes
Assets				
Current Assets				
Cash and cash equivalents	$ 18,228	$ (3,675)	$ -	$ 14,553
Term deposits	9,500	-	-	9,500
Accounts receivable	48,351	(2,924)	-	45,427
Prepaid expenses and other	413	-	-	413
	76,492	(6,599)	-	69,893
Non-current Assets				
Restricted cash	3,000	-	-	3,000
Other long term assets	826	-	-	826
Investments in joint ventures	-	5,672	-	5,672
Property, plant and equipment	166,812	-	-	166,812
Total Assets	$ 247,130	$ (927)	$ -	$ 246,203
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	$ 27,550	$ (927)	$ -	$ 26,623
Deferred revenue	146	-	-	146
Dividends payable	1,262	-	-	1,262
Income taxes payable	3,269	-	-	3,269
	32,227	(927)	-	31,300
Non-current Liabilities				
Deferred income taxes	12,264	-	(113)	12,151
Pension liability	1,535	-	447	1,982
Total Liabilities	46,026	(927)	334	45,433
Shareholders' Equity				
Class A and Class B shares	23,308	-	-	23,308
Contributed surplus	2,758	-	-	2,758
Retained earnings	175,038	-	(334)	174,704
Total Equity	201,104	-	(334)	200,770
Total Equity and Liabilities	$ 247,130	$ (927)	$ -	$ 246,203

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Financial Position December 31, 2012

$Thousands	Before Accounting Policy Changes	Adjustments for changes in accounting policies: IFRS 11 (1)	Adjustments for changes in accounting policies: IAS 19 (2)	After Accounting Policy Changes
Assets				
Current Assets				
Cash and cash equivalents	$ 13,285	$ (2,282)	$ -	$ 11,003
Accounts receivable	66,116	(6,112)	-	60,004
Income taxes recoverable	4,487	-	-	4,487
Prepaid expenses and other	216	(57)	-	159
	84,104	(8,451)	-	75,653
Non-current Assets				
Restricted cash	3,000	-	-	3,000
Other long term assets	921	-	-	921
Investments in joint ventures	-	4,825	-	4,825
Property, plant and equipment	204,969	-	-	204,969
Total Assets	$292,994	$ (3,626)	$ -	$ 289,368
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	$ 44,669	$ (1,580)	$ -	$ 43,089
Deferred revenue	2,141	(2,046)	-	95
Dividends payable	1,255	-	-	1,255
	48,065	(3,626)	-	44,439
Non-current Liabilities				
Deferred income taxes	18,989	-	(103)	18,886
Pension liability	1,942	-	406	2,348
Total Liabilities	68,996	(3,626)	303	65,673
Shareholders' Equity				
Class A and Class B shares	23,186	-	-	23,186
Contributed surplus	3,060	-	-	3,060
Accumulated other comprehensive income	-	-	(21)	(21)
Retained earnings	197,752	-	(282)	197,470
Total Equity	223,998	-	(303)	223,695
Total Equity and Liabilities	$292,994	$ (3,626)	$ -	$ 289,368

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Net Income and Comprehensive Income
For the Year ended December 31, 2012

$Thousands except per share amounts	Before Accounting Policy Changes	Adjustments for changes in accounting policies: IFRS 11 (1)	Adjustments for changes in accounting policies: IAS 19 (2)	After Accounting Policy Changes
Revenue	$ 239,654	$ (36,214)	$ -	$ 203,440
Costs and expenses				
Operating and maintenance	159,458	(21,604)	-	137,854
Depreciation and amortization	24,342	-	-	24,342
Selling and administrative	19,012	(481)	(69)	18,462
Total costs and expenses	202,812	(22,085)	(69)	180,658
Revenue less costs and expenses	36,842	(14,129)	69	22,782
Equity income from joint ventures	-	14,163	-	14,163
Other income (losses)				
Interest income	420	(35)	-	385
Interest expense	(4)	-	-	(4)
Gain on sale of joint venture interests in rigs and other assets	1,082	-	-	1,082
Net other gains	5	-	-	5
Total other income	1,503	(35)	-	1,468
Income before income taxes	38,345	(1)	69	38,413
Income taxes	9,641	-	17	9,658
Net income for the year attributable to shareholders	28,704	(1)	52	$ 28,755
Other comprehensive income	-	-	(21)	(21)
Net income and comprehensive income for the year attributable to shareholders	$ 28,704	$ (1)	$ 31	$ 28,734
Earnings per Class A and Class B Share				
Basic	$ 1.60	$ (0.00)	$ 0.00	$ 1.60
Diluted	$ 1.60	$ (0.00)	$ 0.00	$ 1.60

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Cash Flows
For the Year ended December 31, 2012

$Thousands	Before Accounting Policy Changes	Adjustments for changes in accounting policies: IFRS 11 (1)	Adjustments for changes in accounting policies: IAS 19 (2)	After Accounting Policy Changes
Operating Activities				
Net income	$ 28,703	$ -	$ 52	$ 28,755
Non-cash items included in net income				
Depreciation and amortization	24,342	-	-	24,342
Deferred income taxes	6,725	-	17	6,742
Expense for defined benefit pension plan	422	-	(69)	353
Stock options charged to expense	302	-	-	302
Gain on sale of joint venture interests in rigs and other assets	(1,082)	-	-	(1,082)
Funds flow from operations	59,412	-	-	59,412
Change in non-cash working capital:				
Accounts receivable	(17,765)	3,188	-	(14,577)
Prepaid expenses and other	197	57	-	254
Income taxes recoverable	(4,487)	-	-	(4,487)
Accounts payable and accrued liabilities	19,537	(653)	-	18,884
Deferred revenue	1,995	(2,046)	-	(51)
	58,889	546	-	59,435
Equity income from joint ventures	-	(14,163)	-	(14,163)
Pension benefits paid	(15)	-	-	(15)
Income taxes expense - current	2,916	-	-	2,916
Income taxes paid	(6,185)	-	-	(6,185)
Net cash from operating activities	55,605	(13,617)	-	41,988
Investing Activities				
Capital expenditures	(65,356)	-	-	(65,356)
Change in non-cash working capital related to capital	(2,425)	-	-	(2,425)
Net distributions from investments in joint ventures	-	15,010	-	15,010
Change in term deposits	9,500	-	-	9,500
Proceeds on sale of joint venture interests in rigs and other assets	3,984	-	-	3,984
Net cash used in investing activities	(54,297)	15,010	-	(39,287)
Financing Activities				
Dividends paid	(5,038)	-	-	(5,038)
Proceeds received on exercise of stock options	18	-	-	18
Repurchase of share capital	(1,091)	-	-	(1,091)
Loan commitment fee paid	(140)	-	-	(140)
Net cash used in financing activities	(6,251)	-	-	(6,251)
Decrease in cash and cash equivalents	(4,943)	1,393	-	(3,550)
Cash and cash equivalents, beginning of year	18,228	(3,675)	-	14,553
Cash and Cash Equivalents, End of Year	$ 13,285	$ (2,282)	$ -	$ 11,003

(1) IFRS 11 "Joint Arrangements"
(2) IAS 19 (Revised 2011) "Employee Benefits"

10 Year Financial Review

$Thousands (except per share)	Annual Ranking	2013	2012	2011
Summary of Operations				
Revenue	4	$ 167,533	$ 203,440	$ 199,934
Income before income taxes	4	$ 35,682	$ 38,413	$ 31,762
Income taxes	5	$ 9,167	$ 9,658	$ 8,409
Net income	4	$ 26,515	$ 28,755	$ 23,353
As a percentage of average shareholders' equity	7	11.3%	13.5%	12.1%
Earnings per Class A and Class B share (basic)	4	$ 1.48	$ 1.60	$ 1.29
Funds flow from operations	2	$ 57,619	$ 59,412	$ 42,895
As a percentage of average shareholders' equity	5	24.6%	28.0%	22.3%
Financial Position at Year End				
Working capital	8	$ 40,645	$ 31,214	$ 44,265
Current ratio	5	2.93:1	1.70:1	2.37:1
Total assets	1	$ 291,748	$ 289,368	$ 247,130
Shareholders' equity	1	$ 245,288	$ 223,695	$ 201,104
per share	1	$ 13.65	$ 12.49	$ 11.15
Other				
Capital expenditures (Net)	5	$ 35,113	$ 65,356	$ 54,509
Depreciation and amortization	1	$ 26,825	$ 24,342	$ 20,933
Dividends paid	1	$ 5,566	$ 5,038	$ 5,066
per share	1	$ 0.32	$ 0.28	$ 0.28

Note: Financial information has been calculated under Canadian GAAP for the years 2004 to 2009 and under IFRS for the years 2010 through 2013. Readers should be aware that these two sets of accounting standards are not consistent with each other. Revenue amounts reported for 2012 and 2013 include revenue solely granted by the Company from its wholly owned operations.

2010	2009	2008	2007	2006	2005	2004
$ 145,138	$ 106,263	$ 137,246	$ 141,962	$ 174,543	$ 162,110	$ 135,747
$ 10,932	$ 11,901	$ 20,133	$ 28,667	$ 48,129	$ 44,770	$ 32,121
$ 3,462	$ 3,521	$ 7,147	$ 7,525	$ 14,374	$ 15,506	$ 11,246
$ 7,470	$ 8,380	$ 14,847	$ 20,752	$ 33,755	$ 29,264	$ 20,875
4.1%	4.2%	7.7%	11.5%	21.0%	21.4%	33.4%
$ 0.41	$ 0.46	$ 0.81	$ 1.14	$ 1.83	$ 1.57	$ 1.15
$ 32,798	$ 23,960	$ 34,149	$ 37,143	$ 47,199	$ 42,421	$ 33,947
17.9%	12.0%	17.6%	20.6%	29.4%	31.0%	54.3%

$ 61,341	$ 69,819	$ 63,089	$ 49,123	$ 56,681	$ 59,499	$ 40,414
4.04:1	7.02:1	3.90:1	3.92:1	2.77:1	2.74:1	2.83:1
$ 218,587	$ 234,215	$ 242,869	$ 223,522	$ 222,237	$ 199,852	$ 162,957
$ 183,739	$ 201,446	$ 198,461	$ 188,038	$ 172,873	$ 148,366	$ 124,926
$ 10.19	$ 11.05	$ 10.89	$ 10.29	$ 9.43	$ 8.00	$ 6.70

$ 36,293	$ 11,835	$ 14,622	$ 33,505	$ 40,655	$ 18,386	$ 15,308
$ 24,540	$ 17,476	$ 16,667	$ 15,164	$ 14,211	$ 12,691	$ 11,263
$ 5,079	$ 5,105	$ 5,111	$ 5,117	$ 4,448	$ 4,182	$ 3,641
$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.24	$ 0.225	$ 0.20

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 and
Legal Counsel

Fred O. Hensel
Vice President,
Marketing

Craig W. Kushner
Director of Human Resources

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

Karl A. Ruud
President and Chief Executive Officer

Head Office

AKITA Drilling Ltd.,
900, 311 – 6th Avenue S.W.,
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403.292.7979

Banker

Alberta Treasury Branches
Calgary, Alberta

Counsel

Bennett Jones LLP
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

CST Trust Company
Calgary, Alberta and Toronto, Ontario
1.800.387.0825

Share Symbol / TSX

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

Website

www.akita-drilling.com

HEAD OFFICE

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