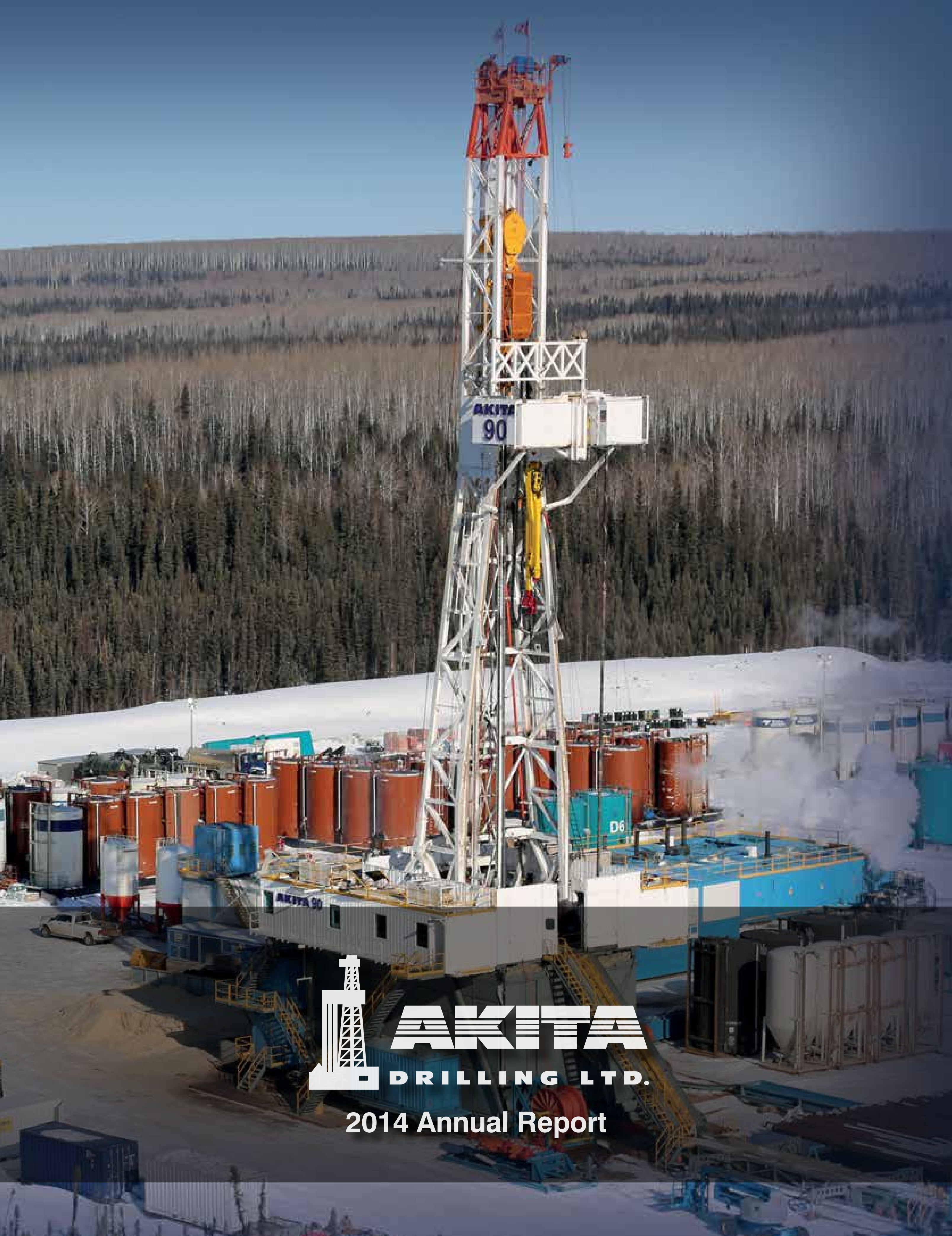


AKITA DRILLING LTD.

2014 Annual Report

Corporate Profile

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

The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and drilling performance. AKITA is committed to maintaining strong, successful relationships with its aboriginal partners. 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 700 people. The Company has ownership in 35 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 12, 2015 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 2014 Annual Report for AKITA.

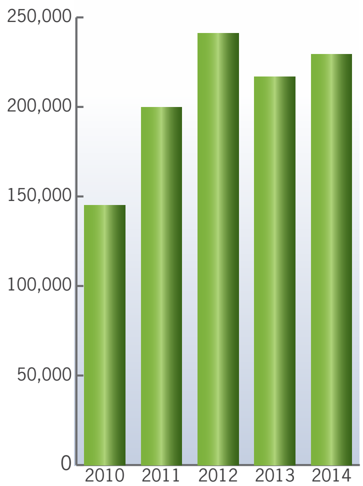
On the cover:
Rig 90, AKITA's newest and deepest capacity rig is currently drilling on its first location. The rig is working under a multi-year contract for LNG related drilling in N.E. British Columbia.

AKITA's business strategy is driven by a commitment to creating shareholder value through the provision of excellent equipment and high quality service. Most of AKITA's newer rigs have been built to meet specialized demands.

All photo credits in this annual report: F. Biggeman

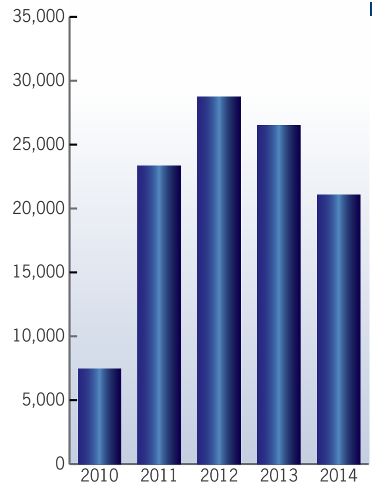
Operational Performance

Revenues
(000's)



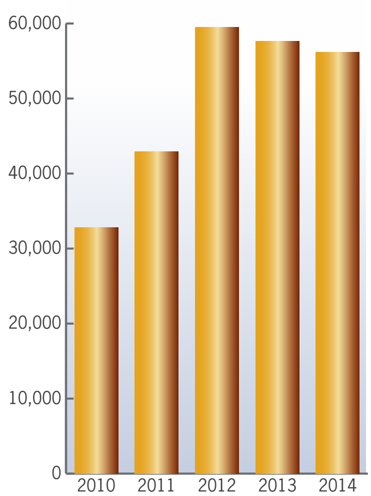
In 2014, revenue as adjusted to include AKITA's proportionate share of joint venture activities, was 6% higher than 2013 adjusted revenue largely as a result of achieving more operating days during 2014, especially for the Company's conventional triples and doubles and to a lesser extent for AKITA's pad doubles.

Net Earnings
($000's)



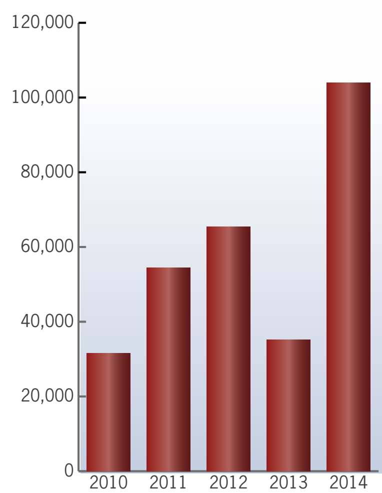
The net income decline in 2014 compared to 2013 was attributable to lower operating margins combined with higher depreciation expense.

Funds Flow from Operations
(000's)



Annual funds flow for 2014 was 2% lower than in 2013 due to lower operating margins as a result of a change in the classes of rigs worked, increased competition and higher service costs.

Capital Expenditures
($000's)



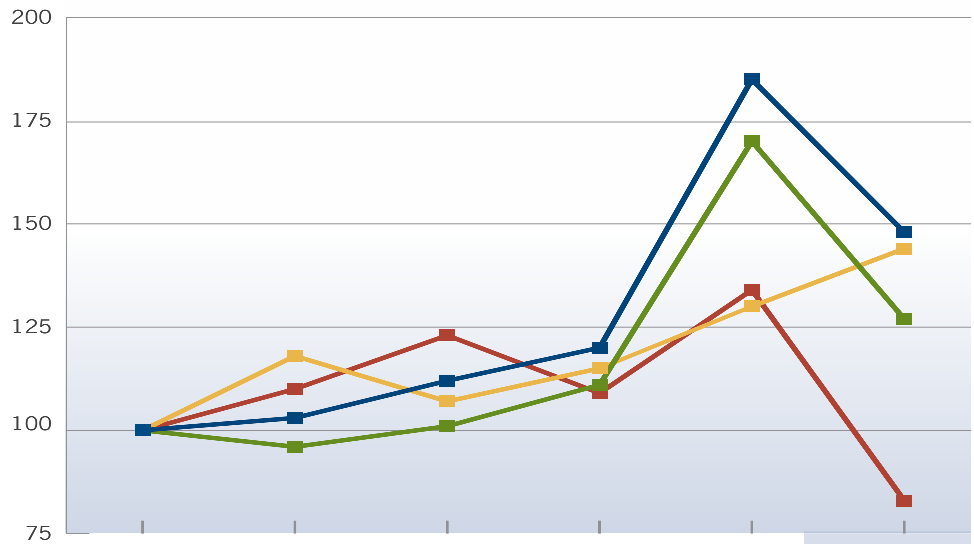
AKITA's 2014 capital expenditure program was the largest in the history of the Company and included five major rig projects that specifically target Western Canadian shale gas or heavy oil prospects.

Note: A change in International Financial Reporting Standards ("IFRS") that became effective for 2012 and future reporting years, no longer permits proportionate consolidation of joint venture activities for IFRS reporting purposes.

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, 2009 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 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014
AKITA Class A	100	103	112	120	185	149
AKITA Class B	100	96	101	111	170	127
S&P/TSX Composite Index	100	118	107	115	130	144
TSX Oil & Gas Drilling Sub-Index	100	110	123	109	134	83

Share Performance

		2010	2011	2012	2013	2014
Weighted average number of Class A and Class B shares		18,148,246	18,083,411	17,988,552	17,969,415	17,948,502
Market prices for Class A shares	High	$ 10.71	$ 12.75	$ 11.89	$ 16.61	$ 17.86
	Low	$ 7.15	$ 9.18	$ 9.21	$ 10.30	$ 11.15
	Close	$ 9.50	$ 10.70	$ 10.50	$ 15.79	$ 12.40
Volume		1,021,031	1,231,978	2,103,087	3,345,199	2,093,823
Market prices for Class B shares	High	$ 11.50	$ 12.65	$ 11.39	$ 16.79	$ 18.30
	Low	$ 8.04	$ 9.80	$ 9.94	$ 10.65	$ 11.75
	Close	$ 10.00	$ 10.25	$ 11.00	$ 16.50	$ 12.00
Volume		13,268	14,436	16,683	18,393	21,019

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.

	2010	2011	2012	2013	2014
Dividends paid per share ($)	0.28	0.28	0.28	0.32	0.34

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, 2014 was $21,079,000 or $1.17 per share (basic and diluted) on revenue of $165,274,000.

Comparative figures for 2013 were net income of $26,515,000 or $1.48 per share - basic ($1.47 - diluted) on revenue of $168,111,000. Funds flow from operations for the current year was $56,195,000 as compared to $57,619,000 in 2013, while net cash from operating activities for 2014 was $40,622,000 as compared to $39,554,000 in 2013.

The 2014 decline in net income compared to the previous year resulted from both lower operating margins and higher depreciation costs. By contrast, the funds flow decline for 2014 occurred primarily as a result of lower operating margins and was much less significant than the reduction in net income.

For the fourth consecutive year, AKITA's rig utilization exceeded industry average. AKITA relies on its key strengths to achieve this level of results – the operation of quality equipment by highly skilled employees, a commitment to customer satisfaction and significant emphasis on pad drilling. The following table highlights AKITA's utilization rates for the past five years:

Rig Utilization Rates

Percent	**2014**	2013	2012	2011	2010
AKITA Pad Rigs	**64.8**	71.9	61.7	67.9	67.4
AKITA Overall Fleet	**48.6**	43.4	48.3	51.5	37.8
Industry	**44.3**	40.3	41.6	49.6	40.7

AKITA has focused significant resources in the development of its pad rig strategy over the past 14 years. At December 31, 2014, AKITA's fleet included 20 pad drilling rigs (57% of the fleet), up from 18 pad rigs at the end of 2013 (47% of the fleet) and 3 pad rigs (8% of the fleet) one decade ago. Additionally, pad rigs were responsible for generating 70% of the Company's 2014 adjusted revenue.

Capital expenditures during 2014 totalled $103,949,000 and were directed towards increasing the breadth and quality of AKITA's pad rig offerings. This represented record spending for the Company resulting in the addition of two new pad rigs and upgrading two existing rigs to better serve the industry. The Company also had an additional new pad rig under construction at December 31, 2014. Each of these rigs was designed to meet market demand for anticipated liquified natural gas ("LNG") related drilling or to drill for heavy oil. The four completed rigs have been actively drilling on their anticipated projects.

As a result of record capital expenditures in 2014, AKITA's December 31, 2014 Statement of Financial Position included $20,000,000 in bank indebtedness (representing 20% usage of a $100,000,000 lending facility), partially offset by $2,012,000 in cash. This level of borrowing is manageable for the Company in the context of debt covenant coverage, anticipated repayment time and additional financial flexibility available to the Company.

AKITA is strongly committed to the safety of its employees as well as third parties at its worksites and continually achieves one of the safest working records in the Canadian drilling industry. Of note, the 2014 total reportable accident frequency (often referred to as "TRIF") was the best in the history of the Company. Management has taken measures to ensure that the Company's comprehensive safety plan is fully endorsed through specific actions and commitment at every worksite.

On January 22, 2015, the Canadian Association of Oilwell Drilling Contractors released its revised 2015 industry drilling forecast estimating 26% average rig utilization compared to 44.3% actual average rig utilization in 2014. The 2015 forecast was based upon commodity price assumptions of US $55 per barrel for crude oil and CAD $3.00 per mcf for natural gas. The revised industry forecast projecting a 41% decline in utilization is indicative of the anticipated impact on the industry from the significant drop in crude oil prices that began in the second half of 2014. This forecast replaced a previous forecast issued two months earlier that predicted a 10% decline in industry activity. While AKITA will not be immune to reduced activity, the Company is positioned for this downturn by having prudent financial management, skilled and experienced personnel throughout the organization and a high performance rig fleet that emphasizes pad drilling, and participates in the two most significant resource developments in Western Canada – heavy oil and shale gas, including LNG focused plays. AKITA has demonstrated its ability to compete effectively in weaker markets and expects to continue to do so.

AKITA is committed to providing drilling services and solutions that will help achieve and maintain a competitive advantage in a challenging business sector. We thank our customers, suppliers and Aboriginal and First Nations partners for their continuing confidence and support. As well, we would like to take this opportunity to thank our shareowners for their ongoing support and acknowledge the efforts of our employees, especially their adaptability to changing conditions. Finally, we wish to express our appreciation to each of our directors for their astute counsel and thoughtful guidance.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

March 4, 2015

Management's Discussion & Analysis

The following sets out management's discussion and analysis ("MD&A") of the consolidated financial position as at December 31, 2014 and 2013, 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, 2014 and 2013. 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 2014 and 2013, including the notes thereto, found on pages 32 to 61 of this Annual Report, provide information on the Company's financial position, results of its operations, cash flows and changes in shareholders' equity. The information in this MD&A was approved by AKITA's Board of Directors on March 4, 2015 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 2014, the Company conducted operations in British Columbia, Alberta and Saskatchewan. The Company strives to be the industry leader in customer relations, Aboriginal and First Nations 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 35 rigs were located in Western Canada at December 31, 2014.

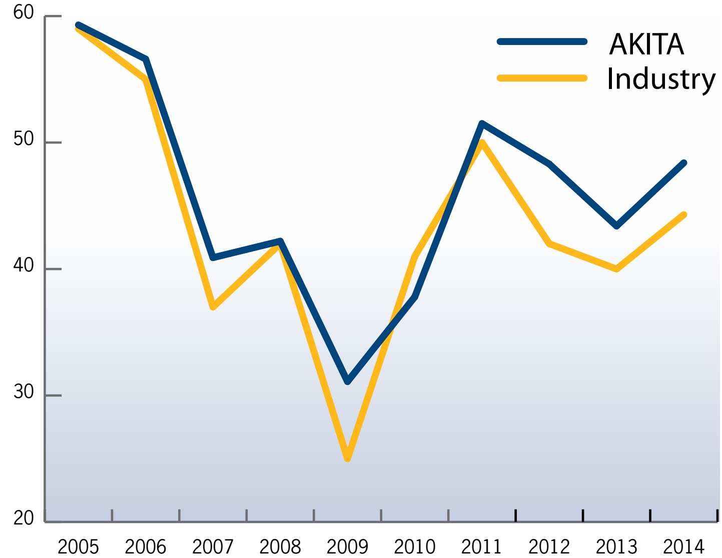
AKITA's growth strategy has focused on constructing new rigs and retrofitting existing rigs in response to specific customer requirements. This strategy enables AKITA to secure long-term drilling contracts with customers who request specific rig configurations, and at the same time to expand and upgrade 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.

During 2014, AKITA participated in the largest capital program in the Company's history. The most significant projects undertaken during 2014 included:

- Conversion of a conventional double to AKITA's first slant pad rig;
- Purchasing and retrofitting a new pad rig to operate effectively in the Canadian drilling environment;
- Completing the construction of a new ultra-deep pad rig for deployment into NE British Columbia for a major customer;
- Upgrading an existing pad rig to enhance its capabilities and marketability for heavy oil drilling opportunities; and
- Commencing the construction of a new pad rig targeting LNG related drilling opportunities. This rig was under construction at year-end and is anticipated to commence operations during 2015.

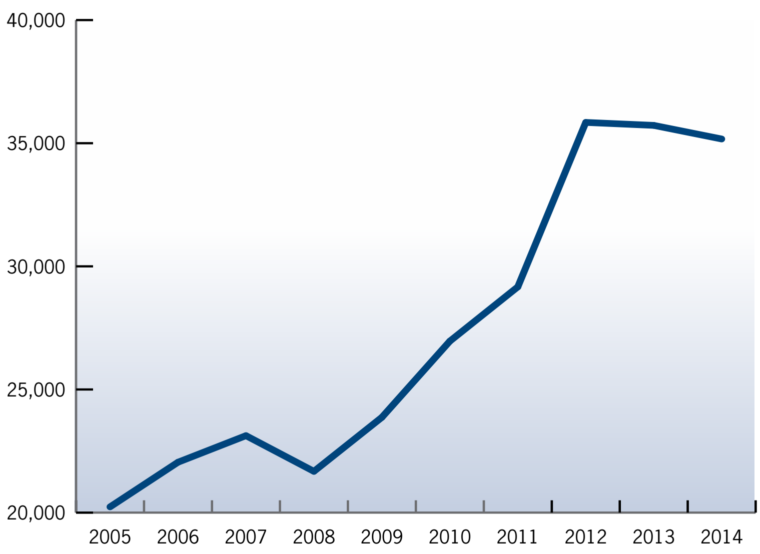
Oil and gas contract drilling activity is cyclical and is subject to numerous factors including world crude oil prices and North American natural gas prices. Overall demand for AKITA's drilling services improved in 2014 compared to 2013 as presented in the accompanying chart of rig utilization rates. While the Company had increased operating days for both conventional and pad rigs in 2014, most of the increase in rig use was for conventional rigs.

Ten Year Historical Rig Utilization Rates



AKITA's revenue per day is increasingly influenced by the number of pad rigs in the Company's fleet. At December 31, 2014, 57% of the Company's rigs were pad rigs, up from 47% at the end of 2013, and up from 8% ten years ago. Revenue per day statistics are included in the following chart:

AKITA's Ten Year Revenue Per Day Statistics



Note: Revenue has been calculated under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for the years 2005 to 2009 and under International Financial Reporting Standards ("IFRS") for the years 2010 to 2014. 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 to 2014 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

The Company reports its joint venture activities in the financial statements in accordance with International Financial Reporting Standards ("IFRS"), IFRS 11 "Joint Arrangements". In determining the classification of its joint arrangements, AKITA considers whether the joint arrangements are structured through separate vehicles, if the legal form of the separate vehicles confers upon the parties direct rights to assets and obligations for liabilities relating to the arrangements, whether the contractual terms between the parties confer upon them rights to assets and obligations for liabilities relating to the arrangements as well as if other facts and circumstances lead to rights for assets and obligations for liabilities being conferred upon the parties to the arrangement prior to concluding that AKITA's joint ventures are appropriately classified as joint ventures rather than joint operations. Under IFRS 11, AKITA is required to report its joint venture assets, liabilities and financial activities 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. None of AKITA's joint ventures are individually material in size when considered in the context of AKITA's overall 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 tool 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 under IFRS. 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	2014	2013	Change	% Change
Revenue per financial statements (1)	165.3	168.1	(2.8)	(2%)
Proportionate share of revenue from joint ventures (2)	64.1	48.8	15.3	31%
Adjusted revenue (2)	229.4	216.9	12.5	6%

$Millions	2014	2013	Change	% Change
Operating and maintenance expenses per financial statements (1)	112.6	106.3	6.3	6%
Proportionate share of operating and maintenance expenses from joint ventures (2)	40.3	29.5	10.8	37%
Adjusted operating and maintenance expenses (2)	152.9	135.8	17.1	13%

$Millions	2014	2013	Change	% Change
Adjusted revenue (2)	229.4	216.9	12.5	6%
Adjusted operating and maintenance expenses (2)	152.9	135.8	17.1	13%
Adjusted operating margin (1) (2) (3)	76.5	81.1	(4.6)	(6%)

$Dollars	2014	2013	Change	% Change
Adjusted revenue per operating day (2)	35,179	35,724	(545)	(2%)
Adjusted operating and maintenance expenses per operating day (2)	23,450	22,366	1,084	5%
Adjusted operating margin per operating day (2) (3)	11,729	13,358	(1,629)	(12%)

(1) *Revenue, operating and 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. The Company did not have any construction revenue in 2014.*

(2) *Proportionate share of revenue from joint ventures, adjusted revenue, proportionate share of operating and maintenance expenses from joint ventures, adjusted operating and maintenance expenses, adjusted operating margin, adjusted revenue per operating day, adjusted operating and 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 and maintenance expenses.*

Adjusted revenue of $229,364,000 in 2014 was 6% higher than the 2013 adjusted revenue of $216,952,000 largely as a result of achieving more operating days during 2014, especially for the Company's conventional triple and double sized rigs and to a lesser extent for AKITA's pad doubles. This increase in demand for those specific rig categories was partially offset by weaker demand for the Company's conventional singles and pad triples during 2014. During 2014, average adjusted revenue per operating day decreased to $35,179 per day compared to $35,724 in 2013 due to a shift in rig mix away from higher revenue generating pad triples as well as increased competition. Pad rigs typically obtain higher day rates than conventional rigs.

Adjusted operating and maintenance costs are tied to activity levels and amounted to $152,891,000 or $23,450 per operating day during 2014 compared to $135,827,000 or $22,366 per operating day for the prior year. Increased activity levels, higher costs for services and a change in rig mix resulted in higher operating and maintenance costs in 2014 compared to 2013 when considered on both an annual as well as a "per operating day" basis.

The Company's adjusted operating margin for 2014 was $76,473,000 ($11,729 per operating day), down from $81,125,000 ($13,358 per operating day) in 2013. Despite AKITA's rigs being more active in 2014 compared to 2013, the change in rig mix, increased competition and higher costs for services all contributed to reduced operating margin results, both on a "total amount" as well as "per day" basis.

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on day work contracts is measured based upon the passage of time in accordance with the terms of the contract. All drilling revenue generated in 2014 and 2013 was generated under day work contracts. No significant losses were anticipated at either of these year-end dates and accordingly no provision for material losses has been made.

From time to time, the Company requires customers to make pre-payments prior to the provision of drilling services. In addition, from time to time, the Company records cost recoveries related to capital enhancements for specific customer related projects. At December 31, 2014, deferred revenue related to these activities totalled $175,000 (December 31, 2013 - $334,000).

AKITA provided drilling services to 36 different customers in 2014 (2013 - 21 different customers).

Depreciation and Amortization Expense

$Millions	2014	2013	Change	% Change
Depreciation and amortization expense	30.2	26.8	3.4	13%

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. 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 $30,200,000 during 2014 from $26,825,000 during 2013 was mostly attributable to the higher average cost base for drilling rigs combined with increased drilling activity. Drilling rig depreciation accounted for 96% of total depreciation and amortization expense in 2014 (2013 – 96%).

Selling and Administrative Expenses

$Millions	2014	2013	Change	% Change
Selling and administrative expenses per financial statements	18.1	18.2	(0.1)	(1%)
Proportionate share of selling and administrative expenses from joint ventures (1)	0.8	0.5	0.3	60%
Adjusted selling and administrative expenses (1)	18.9	18.7	0.2	1%

(1) Proportionate share of selling and administrative expenses from joint ventures and adjusted selling and 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 increased to $18,929,000 in 2014 from $18,768,000 in 2013. Adjusted selling and administrative expenses equated to 8.2% of total adjusted revenue in 2014, compared to 8.6% of total adjusted revenue in 2013, as a result of increased adjusted revenue.

The single largest component of adjusted selling and administrative expenses was salaries and benefits which accounted for 61% of these expenses in 2014 (60% in 2013).

Equity Income from Joint Ventures

$Millions	2014	2013	Change	% Change
Proportionate share of revenue from joint ventures (1)	64.1	48.8	15.3	31%
Proportionate share of operating and maintenance expenses from joint ventures (1)	40.3	29.5	10.8	37%
Proportionate share of selling and administrative expenses from joint ventures (1)	0.8	0.5	0.3	60%
Equity income from joint ventures	23.0	18.8	4.2	22%

(1) Proportionate share of revenue from joint ventures, proportionate share of operating and maintenance expenses from joint ventures and proportionate share of selling and 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. Two thirds of AKITA's joint ventures utilize pad drilling rigs.

Other Income

$Millions	2014	2013	Change	% Change
Total other income	0.8	0.7	0.1	14%

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income decreased to $172,000 in 2014 from $345,000 in 2013 as a result of reduced cash and elimination of term deposit balances. The Company has undertaken significant capital expenditures related to the construction of new rigs and the conversion of conventional rigs into pad rigs, utilizing term deposits and thereby reducing cash balances over time.

During 2014, interest expense of $262,000 (2013 – $108,000) related to the future cost of the Company's unfunded defined benefit pension plan as well as the cost of financing the Company's indebtedness during the fourth quarter.

During 2014, the Company disposed of selected non-core assets resulting in a $536,000 gain. AKITA disposed of several minor assets in 2013, resulting in a $106,000 gain.

In 2014, amounts reported as "Net Other Gains" of $331,000 include foreign exchange amounts related to forward exchange contracts purchased to provide a hedge for foreign rig equipment commitments related to rig construction (gain of $371,000), an unrealized cost related to loan guarantees that the Company has provided on behalf of certain joint venture partners (cost of $120,000) and other (gain of $80,000).

Other than the foreign currency hedge on major capital expenditures noted above, readers should be aware that in 2014 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 (%)	2014	2013	Change	% Change
Current tax	2.6	5.4	(2.8)	(52%)
Deferred tax	4.4	3.8	0.6	16%
Total income tax expense	7.0	9.2	(2.2)	(24%)
Effective income tax rate	25.0%	25.7%		

Income tax expense decreased to $7,042,000 in 2014 from $9,167,000 in 2013, due to lower pre-tax income as well as a decrease 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 increased as a result of record capital expenditures in 2014.

Net Income, Funds Flow and Net Cash from Operating Activities

$Millions	2014	2013	Change	% Change
Net income	21.1	26.5	(5.4)	(20%)
Funds flow from operations (1)	56.2	57.6	(1.4)	(2%)

(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 $21,079,000 or $1.17 (basic and diluted) per Class A Non-Voting and Class B Common Share for 2014 from $26,515,000 or $1.48 per share (basic) ($1.47 - diluted) in 2013. Funds flow from operations decreased to $56,195,000 in 2014 from $57,619,000 in 2013.

The net income decline in 2014 compared to 2013 was attributable to lower operating margins (as a result of a change in the class of rigs worked, increased competition and higher service costs) combined with higher depreciation expense (due to a higher average cost base for drilling rigs as well as higher drilling activity).

While net income dropped 20% in 2014 compared to the previous year, funds flow from operations declined by 2% primarily as a result of lower operating margins.

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

$Millions	2014	2013	Change	% Change
Funds flow from operations (1)	56.2	57.6	(1.4)	(2%)
Change in non-cash working capital	8.0	0.3	7.7	2,567%
Equity income from joint ventures	(23.0)	(18.8)	(4.2)	(22%)
Current income tax expense	2.6	5.4	2.8	(52%)
Income tax paid	(3.1)	(4.9)	1.8	37%
Interest paid and other	(0.1)	0.0	(0.1)	N/A
Net cash from operating activities	40.6	39.6	1.0	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".

Fleet and Utilization

The following table summarizes rig changes that occurred in 2014:

Fleet Changes during 2014

	Gross	Net
Number of rigs at December 31, 2013	38	34.725
New rig purchased and subsequently upgraded to Canadian Standards	1	1.000
Completion of construction on ultra-deep pad rig	1	1.000
Decommissioning of four rigs during the year	(4)	(4.000)
Sale of existing pad rig	(1)	(1.000)
Number of rigs at December 31, 2014	35	31.725

Utilization rates are a key statistic for the drilling industry since they measure revenue volume and influence pricing. During 2014, AKITA achieved 6,520 operating days, which corresponded to a utilization rate of 48.6% compared to an industry average utilization rate of 44.3% during the same period. During the comparative year in 2013, AKITA achieved 6,073 operating days, representing 43.4% 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.

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, 2014

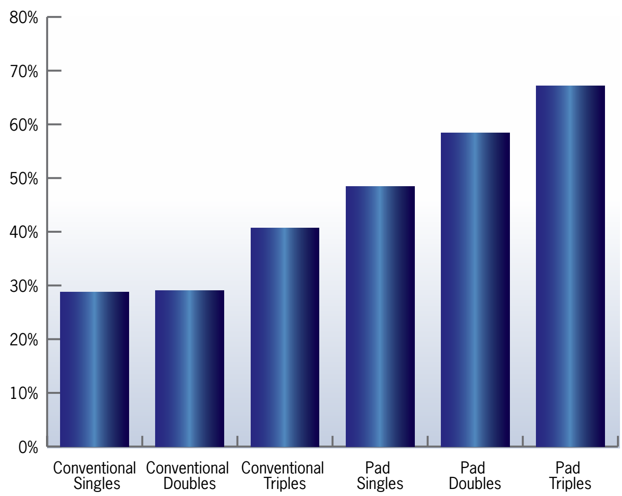
	Conventional Rigs		Pad Rigs	
	Number of Rigs	Percentage of Fleet	Number of Rigs	Percentage of Fleet
Singles	6	17%	1	3%
Doubles	5	14%	5	14%
Triples	4	12%	14	40%
Total	15	43%	20	57%

During 2014, AKITA commissioned one new pad double rig and one new pad triple rig. In addition, the Company converted a conventional double rig into a slant pad single rig. During 2014, AKITA decommissioned two conventional single rigs as well as one conventional double rig and one conventional triple rig. The Company also sold one pad triple rig into a market in which the Company does not compete.

From time to time, the Company enters into drilling contracts for extended terms. At December 31, 2014, AKITA had four rigs with multi-year contracts that extend beyond one year. Of these contracts, two are anticipated to expire in 2016, one in 2018 and one in 2019.

AKITA's competitive position is affected by the overall size of the Canadian drilling fleet and the level of customer demand. At December 31, 2014 there were 806 drilling rigs registered with the CAODC (December 31, 2013 – 817). AKITA's drilling fleet of 35 rigs represented 4.3% of the total Canadian drilling fleet at December 31, 2014 (December 31, 2013 – 4.6%).

The following graph illustrates AKITA's 2014 drilling utilization rates according to rig type:



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).

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
2014					
Revenue	**54,342**	**28,365**	**36,556**	**46,011**	**165,274**
Net income	**10,150**	**2,081**	**3,854**	**4,994**	**21,079**
Earnings per share (basic and diluted) ($)	**0.57**	**0.12**	**0.21**	**0.27**	**1.17**
Funds flow from operations (1)	**17,665**	**10,609**	**10,942**	**16,979**	**56,195**
Cash flow from operations	**5,127**	**28,789**	**4,641**	**2,065**	**40,622**
2013					
Revenue	60,761	28,324	33,096	45,930	168,111
Net income	12,495	2,757	3,540	7,723	26,515
Earnings per share (basic) ($)	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 operating activities	5,142	23,367	742	12,737	41,988

(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".

During the fourth quarter of 2014, rig activity for the Company included 1,669 operating days compared to 1,567 operating days during the corresponding period in 2013. The increase in operating days compared to the corresponding quarter in 2013 was due to higher activity for AKITA's conventional doubles and triples as well as pad double rigs, and was partially offset by achieving fewer operating days with AKITA's conventional singles and pad triples. The increased operating day activity in the fourth quarter of 2014 compared to the corresponding period in 2013 resulted in higher financial statement revenue of $46,011,000 (equivalent to $62,211,000 on an adjusted basis) when compared to fourth quarter 2013 financial statement revenue of $45,930,000 (equivalent to $58,528,000 on an adjusted basis). While fourth quarter 2014 revenue and adjusted revenue were higher than for the corresponding period in 2013, adjusted revenue per operating day of $37,274 was lower than adjusted revenue of $37,350 per operating day in the fourth quarter of 2013, largely as a result of a change in rig mix. Operating and maintenance costs, which are also tied to activity levels, increased during the fourth quarter of 2014 to $43,539,000 or $26,087 per operating day on an adjusted basis from $36,273,000 or $23,148 per operating day on an adjusted basis during the corresponding quarter of 2013. Increased activity levels, higher costs for services and a change in rig mix resulted in higher operating and maintenance costs when considered on both a quarterly as well as a "per operating day" basis. The operating margin during the fourth quarter of 2014 was $18,672,000 or $11,187 per operating day on an adjusted basis compared to $22,255,000 or $14,202 per operating day on an adjusted basis during the fourth quarter of 2013. Despite being more active in the fourth quarter of 2014 compared to the corresponding quarter in 2013, the change in rig mix, increased competition and higher service costs all contributed to reduced operating margin results, both on a "total amount" as well as "per day" basis.

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 $4,994,000 or $0.27 per Class A Non-Voting and Class B Common Share (basic and diluted) for the fourth quarter of 2014 from $7,723,000 or $0.43 per share (basic and diluted) in the fourth quarter of 2013. The decrease in net income that occurred in the fourth quarter of 2014 compared to the corresponding quarter in 2013 was the result of lower operating margins and to a lesser extent higher depreciation charges. Funds flow from operations of $16,979,000 was lower in the fourth quarter of 2014 compared to the corresponding quarter in 2013 of $17,213,000 but to a lesser extent when compared to net income for the same period. While weaker operating margins had an adverse effect on funds flow and net income, a higher percentage of income taxes was deferred into future periods in the fourth quarter of 2014 compared to the corresponding quarter in 2013.

Overall liquidity decreased at December 31, 2014 compared to the corresponding 2013 year-end date by $45,673,000 as measured in terms of overall working capital. In 2014, record capital spending was significantly higher than funds flow from operations for the Company. AKITA's cash balance decreased $11,986,000 on a year-over-year basis and was $2,012,000 at December 31, 2014 (December 31, 2013 - $13,998,000). In addition to cash, the Company did not hold any term deposits at December 31, 2014 (December 31, 2013 - $5,000,000) and had $20,000,000 in bank indebtedness (December 31, 2013 - $Nil).

Three Year Annual Financial Summary

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

Three Year Summary

($Thousands, except per share) (Unaudited)	2014	2013	2012
Revenue	165,274	168,111	203,440
Net income	21,079	26,515	28,755
Basic earnings per share ($)	1.17	1.48	1.60
Diluted earnings per share ($)	1.17	1.47	1.60
Dividends per Class A Non-Voting and Class B Common share ($)	0.34	0.32	0.28
Funds flow from operations (1)	56,195	57,619	59,474
Net cash from operating activities	40,622	39,554	42,009
Year-end working capital (deficiency)	(5,028)	40,645	31,214
Year-end other long-term liabilities	30,796	25,400	21,234
Year-end shareholders' equity	259,841	245,288	223,695
Year-end total assets	340,926	291,748	289,368

(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

At December 31, 2014, AKITA had $5,028,000 in working capital deficiency, including $2,012,000 in cash and $20,000,000 of bank indebtedness, compared to $40,645,000 in working capital, including $13,998,000 in cash and no bank indebtedness, for the previous year. In 2014, AKITA generated $40,622,000 from operating activities. Cash was also generated from joint venture distributions ($26,874,000), from drawing on the Company's credit facility ($20,000,000), from proceeds on sales of assets ($8,316,000) and from redemptions of term deposits ($5,000,000). During the same period, cash was used for capital expenditures ($102,862,000) (Note), payment of dividends ($6,015,000) (Note), increasing restricted cash balances used for loan guarantees ($3,431,000), repurchasing Class A Non-Voting Shares ($390,000), and payment of a loan commitment fee ($100,000).

Note: Readers should be aware that the use of cash in any given period for capital expenditures or payment of dividends does not necessarily coincide with the accounting treatment when reported on an accrual basis.

The Company chooses to maintain a conservative Statement of Financial Position due to the cyclical nature of the industry. In addition to its cash balances, the Company has an operating loan facility with its principal banker totalling $100,000,000 that is available until 2019. 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 and 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 had borrowings of $20,000,000 from this facility at December 31, 2014.

As part of the loan facility agreement, the Company must adhere to the following financial covenants:

- Funded debt to EBITDA shall not be greater than 3.00 to 1. As at December 31, 2014 (the most recent measurement date), AKITA's actual rate was 0.34 to 1;
- EBITDA to interest expense shall not be less than 3.00 to 1. As at December 31, 2014. AKITA's actual rate was 224 to 1; and
- Tangible assets to funded debt shall not be less than 2.25 to 1. As at December 31, 2014, AKITA's actual rate was 16.05 to 1.

Readers should be aware that the terms "funded debt", "EBITDA", "interest expense" and "tangible assets" have been specifically defined in the loan facility agreement and are not necessarily defined by or consistent with either GAAP or determinations by other users for other purposes.

From time to time, the Company makes major purchases from non-Canadian suppliers in connection with its capital expenditures. AKITA purchases forward currency contracts in order to minimize the risk of currency translation adjustments associated with these purchases. At December 31, 2014, the Company had $2.5 Million in forward currency contracts related to capital expenditures which were executed in January, 2015.

The Company had outstanding normal course issuer bids during 2013 and the first five months of 2014. During 2014, the Company repurchased 27,600 Class A Non-Voting Shares at an average price of $15.49 pursuant to its normal course issuer bid. AKITA did not renew its share repurchase program at the end of May, 2014, initially in order to focus cash resources on growth potential within the Company. Further, with the rapid and significant drop in the price of crude oil during the second half of 2014 the Company elected to continue to conserve cash, at least until market conditions improve. During 2013, the Company repurchased 9,065 Class A Non-Voting Shares at an average price of $15.27.

In 2014, AKITA entered into a new lease for its head office. In 2015, the annual cost for this lease is $781,000. The lease expires on December 31, 2019.

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	**4,077**	781	1,620	1,676	Nil
Purchase obligations	**975**	325	650	Nil	Nil
Capital expenditure commitments	**5,988**	5,988	Nil	Nil	Nil
Pension obligations	**3,426**	Note	Note	Note	Note
Total contractual obligations	**14,466**	7,094	2,270	1,676	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost in year one ranges from $15,000 to $87,000, from year one to three ranges from $30,000 to $155,000 annually, and from year four to five ranges from $30,000 to $301,000 annually, with any balance being due after five years in any event.

Property, Plant and Equipment

Capital expenditures totalled $103,949,000 in 2014, a record level of capital spending for the Company. The most significant expenditures related to the following projects:

- Completion of a new ultra-deep pad triple which commenced its multi-year contract during the fourth quarter of 2014;
- Completion of the conversion of a conventional double into the Company's first slant pad single (this rig commenced operations during the third quarter of 2014);
- Purchasing and refitting of a new pad double to enable it to operate in Canada (completion of the refit occurred in the fourth quarter of 2014 with the rig currently operating under a one-year initial contract);
- Upgrading of a pad triple to make it more suitable for drilling heavy oil targets in the Duvernay or Montney formations (this rig recommenced operations during the fourth quarter of 2014); and
- Commencing construction of a pad triple announced in the first quarter of 2014 (the rig is anticipated to meet demand for proposed liquified natural gas ("LNG") related drilling projects and is scheduled to be completed in the first half of 2015).

The cost incurred during 2014 for the five aforementioned rig construction projects was $81,667,000. Additional capital expenditures related to certifications and overhauls having a life in excess of one year ($12,573,000), rig equipment for existing rigs ($5,846,000) drill pipe and drill collars ($3,459,000) and other equipment ($404,000). Capital expenditures for 2013 totalled $35,113,000.

During the third quarter of 2014, the Company disposed of one of its underutilized pad rigs. Proceeds from sales of underutilized and non-core assets totalled $8,315,000 in 2014 (2013 - $443,000).

Asset Impairment Testing

International Accounting Standard 36 Impairment of Assets ("IAS 36") sets out requirements for reporting impairment which cover a range of assets (and groups of assets, termed "Cash Generating Units" or CGUs). The impairment test utilized by the Company compares each CGU's carrying amount with its recoverable amount. The recoverable amounts are defined as the higher of the amounts calculated under the fair value less cost of disposal, and the value in use.

IAS 36 requires an entity to consider both internal and external factors when assessing whether there are indicators of impairment. While the Company did not determine any internal indicators of impairment at December 31, 2014, it did recognize the significant decline in the price of crude oil as a potential external indicator of impairment. Since year-end, this decline in commodity prices has affected drilling activity and expectations for ongoing drilling activity as discussed later in this MD&A under "Future Outlook and Strategy". Further, the carrying amount of AKITA's net assets exceeded its market capitalization at December 31, 2014. The Company did not note any additional events that occurred after December 31, 2014 that would provide additional indications of impairment as at December 31, 2014.

The accuracy of impairment testing is affected by the extent and subjectivity of estimates and judgments in respect of the inputs and parameters that are used to determine the recoverable amounts. In performing its impairment tests at December 31, 2014 management determined value in use for its CGUs using estimated discounted cash flows ("DCFs"), which included estimates of future cash flows, expectations regarding cash flow variability, a determination of the discount rate and consideration of the inherent price of each CGU. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value.

Management used its Budget and Business Plan, as approved on November 14, 2014 by its Board of Directors and subsequently adjusted for weaker market conditions, as its primary basis for its impairment testing at December 31, 2014. Cash flows were determined for each of the Company's six operating CGUs: conventional singles, conventional doubles, conventional triples, pad singles, pad doubles and pad triples. While these six operating CGUs encompass 98% of the Company's property, plant and equipment, consideration was also given to other corporate assets in the Company's impairment tests.

Additional significant assumptions used in AKITA's impairment tests at December 31, 2014 included potential annual revenue growth rates (taken as 0%), potential inflation for cash outflows necessary to generate cash inflows for CGUs (taken as 2%), the projected forecast period (taken as up to 10 years per CGU), the discount rate taken based on the Company's pre-tax determination of its weighted average cost of capital (calculated as 8%) and salvage value at the end of each CGU's useful life (determined as 20% of original cost). The generation of cash flows was considered for the Company's CGUs based on the existing condition of each CGU at December 31, 2014.

The Company also performed the following sensitivity tests relative to its impairment testing:

- Decreased future cash flows from its approved budgets as subsequently adjusted for weaker market conditions by 10%;
- Changed annual revenue growth assumption from 0% to -2% per year;
- Increased inflation for cash outflows from 2% to 4% per year;
- Increased pre-tax discount rate from 8% to 10%; and
- Reduced salvage values from 20% to 15%.

As rigs are long lived assets, no sensitivity adjustment was made for the projected forecast period.

The sensitivity tests resulted in reductions to the CGUs' values in use ranging between $9,710,000 and $28,666,000. In all instances the adjusted CGU values in use exceeded the carrying values reported in the financial statements at December 31, 2014. No adjustments to carrying amounts were made as a result of this asset impairment testing process.

Financial Instruments

The Company's financial assets and liabilities include cash, cash equivalents, term deposits, accounts receivable, restricted cash, operating loan facility, 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 2014 the Company entered into foreign exchange forward contracts that matured in the first quarter of 2015. At December 31, 2014, the Company had outstanding contracts to buy a total of US$2.5 Million at an average rate of Canadian dollars 1.1334 to the US dollar. The Company uses hedges only for the purpose of reducing foreign currency exposure and does not use hedges for speculative or other purposes.

Despite the impact of weak commodity prices for crude oil and natural gas on AKITA's customers, management continues to consider 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 2014 and 2013 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. During 2014, operating purchases totalled $430,000 (2013 - $390,000) and included sponsorship and advertising ($325,000) and other miscellaneous purchases ($105,000). The Company renewed its multi-year sponsorship and advertising contracts with Spruce Meadows, in 2014. At December 31, 2014, the remaining commitment was $975,000. Costs incurred related to this contract during 2014 were $325,000 (2013 - $325,000). Costs and related services are consistent with parties dealing at arm's length.

The Company incurred legal fees of $74,000 (December 31, 2013 - $83,000) 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, 2014. At December 31, 2014, $2,000 (December 31, 2013 - $1,000) 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	2014	2013
Revenue	33	78
Operating and maintenance costs	9,438	7,298
Selling and administrative costs	1,066	758
Year-end accounts payable	4,626	2,948

Class A and Class B Share Dividends

Per Share	2014	2013	Change	% Change
Dividends per share ($)	0.34	0.32	0.02	6%

During 2014, AKITA declared dividends totalling $6,103,000 ($0.34 per share) on its Class A Non-Voting Shares and Class B Common Shares, compared to $5,752,000 ($0.32 per share) for 2013. 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 and the dividend rate has never been decreased. The most recent dividend was declared on March 4, 2015 with a dividend rate of $0.085 per share.

Class A Non-Voting and Class B Common Shares

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

Issued

	Class A Non-Voting		Class B Common		Total	
$Thousands	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
January 1, 2013	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	1,653,884	1,366	17,973,261	23,908
Shares repurchased in 2014	(27,600)	(37)	-	-	(27,600)	(37)
December 31, 2014	16,291,877	22,505	1,653,784	1,366	17,973,261	23,871
Exercisable options at Dec. 31, 2014	354,300					
Unexercisable options at Dec. 31, 2014	222,700					

At March 4, 2015, the Company had 16,291,877 Class A Non-Voting Shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 577,000 stock options outstanding, of which 354,300 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 balance sheet date. Depending on the actual transaction, total assets and liabilities of the Company as well as results of operations including net income could be either understated or overstated as a result of differences between amounts accrued for incomplete transactions and the subsequent actual balances.

The preparation of AKITA's consolidated financial statements requires management to make significant estimates relating to the useful lives of drilling rigs. 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, 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. Please refer to the section "Asset Impairment Testing" on pages 18 to 19 for further details on the Company's impairment testing at December 31, 2014.

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 $3,426,000 at December 31, 2014 (2013 - $2,556,000). AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, since the defined benefit pension is an unfunded non-cash item. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2014, a key assumption relates to the use of a 3.8% discount rate (2013 – 4.7%). 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

From time to time, the Company may provide guarantees for bank loans to joint venture partners in respect of sales of rig interests to joint venture partners. At December 31, 2014, AKITA provided $9,381,000 in deposits with its bank for those purposes (December 31, 2013 - $5,950,000). These funds have been classified as "restricted cash" on the Consolidated Statements of Financial Position.

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. As a result of a record level of capital expenditures during the year, at December 31, 2014, the Company had $20,000,000 in bank indebtedness, which was the equivalent of 35.6% of 2014 funds flow from operations.

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

Dependence on Major Customers

In 2014, AKITA earned 14.5% of total adjusted revenue from one major customer. This was the only customer who individually provided over 10% of the Company's adjusted revenue for the 2014 fiscal year although the Company also received over 10% of its unadjusted revenue from each of two additional customers. The loss of one or more major customers or a significant reduction in the business done with any customer 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 would 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 sufficient 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 utilization and revenue rates in the industry as a whole, which would have a material 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.

During the second half of 2014 and continuing into 2015, material reductions have occurred with respect to the price of crude oil. This commodity price decline has resulted in a "step-change" response from AKITA's customers with respect to the number and size of upcoming drilling projects that AKITA might be invited to provide drilling services for as well as the day rate potential for working rigs that are not currently working under term contracts.

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 2014 with 18 pad rigs. During the year, AKITA added one new ultra-deep pad triple, purchased and upgraded a pad double for working in Canadian conditions and upgraded a conventional double into a slant pad single. Additionally, the Company sold an existing underutilized pad triple during 2014. Consequently, at the end of 2014, AKITA had 20 pad rigs. In addition, at year-end, the Company was constructing a new pad triple for delivery in the first half of 2015. This rig is expected to drill liquified natural gas ("LNG") related prospects.

Of AKITA's 20 pad rigs, 13 are focused on drilling projects that are associated with the development of heavy oil. Management ranks this opportunity as likely to decline by 10 percent or more in 2015, especially when rigs are used to drill cold heavy oil as opposed to drilling thermal wells such as steam assisted gravity drainage ("SAGD") projects.

Natural gas focused pad rigs constitute the next most significant portion of AKITA's fleet. At December 31, 2014, the Company had six rigs working or available to drill this resource. Barring negative investment decisions with respect to LNG development, management anticipates drilling activity for AKITA's natural gas focused pad rigs will continue to be positive. However, management anticipates that there will be limited opportunities for additional new or retrofitted rigs in the short term given the increase in industry supply that has recently occurred as well as delays in consortiums receiving LNG project final approvals.

In addition to pad drilling for heavy oil and natural gas, the Company owns one pad rig that is currently drilling potash opportunities. AKITA also operates a pad rig that it constructed and sold to a customer to drill potash resources. Management anticipates that drilling for potash will continue at a pace consistent with the 2014 drilling environment.

Demand for shallow capacity conventional rigs is highly seasonal with greatest demand occurring during the first quarter of most years. However, during the fourth quarter of 2014, most of AKITA's customers cancelled their winter drilling programs. Consequently, drilling activity is expected to be weak for this rig category for the foreseeable future, and will likely only return to higher levels once crude oil prices are sufficient to motivate operators to re-establish heavy oil delineation programs. AKITA has six rigs in this category.

Demand is anticipated to weaken significantly for conventional doubles in 2015. Although opportunities should present themselves from time to time, AKITA's management expects performance for this rig category to be very competitive given the large number of rigs in the Canadian drilling fleet in this category with success being highly dependent upon rig availability, geographic proximity to drilling projects as well as being able to achieve competitive pricing. AKITA has five rigs that compete in this sector.

Opportunities for deep and ultra-deep conventional rigs in 2015 appear to be inconsistent at this time. While this rig category tends to be less seasonal than other conventional rig classes, management has identified few potential opportunities beyond spring break-up. AKITA has four rigs in this category.

On January 22, 2015, the Canadian Association of Oilwell Drilling Contractors released its revised 2015 industry drilling forecast estimating 26% average rig utilization compared to 44.3% actual average rig utilization in 2014. The 2015 forecast was based upon commodity price assumptions of US $55 per barrel for crude oil and CAD $3.00 per mcf for natural gas. While risks exist to achieving even this weak annual forecast, winter drilling activity to date appears to be supportive of the CAODC forecast.

The Company remains well positioned to face the challenges of the current market given its diverse rig fleet, expertise especially with regards to pad drilling, limited level of financial leverage and significant management experience throughout all phases of the business cycle. 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 of December 31, 2014, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures as required by the Canadian Securities Administrators ("CSA"). This evaluation was performed under the supervision of, and with the participation of the President and Chief Executive Officer ("CEO") and the Vice President, Finance and Chief Financial Officer ("CFO").

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed with the securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure that this information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions on required disclosure.

Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective at December 31, 2014.

As of December 31, 2014, management evaluated the effectiveness of the Company's internal control over financial reporting as required by the CSA. This evaluation was performed utilizing the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"), as revised effective May 14, 2013 under the supervision of, and with the participation of the CEO and CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Based on this evaluation, the CEO and CFO have concluded that the Company's internal control over financial reporting was effective at December 31, 2014.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on October 1, 2014 and ended December 31, 2014 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. There was also no change in the Company's internal control over financial reporting that has occurred since December 31, 2014.

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

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are not required to be adopted in the current period. The Company has not early adopted these standards or interpretations. The standards which the Company anticipated may have a material effect on the consolidated financial statements or note disclosures are described below.

IFRS 15 Revenue from Contracts with Customers replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the new standard.

IFRS 9, Financial Instruments, was amended in July 2014, which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively. The Company is currently evaluating the impact of the new standard on it's financial statements.

There are no other standards and interpretations that have been issued, but are not yet effective, that the Company anticipates will have a material effect on the consolidated financial statements once adopted.

Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 4, 2015. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2014 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 1000, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 or at www.sedar.com.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to AKITA contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and are in conformity with 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 the impact of low commodity prices for crude oil and natural gas on the carrying values of its assets, 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,* as revised effective May 14, 2013. 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 four 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 Roth

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, 2014 and December 31, 2013 and the consolidated statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, 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, 2014 and December 31, 2013 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
March 4, 2015

Consolidated Statements of Financial Position

$Thousands		December 31, 2014	December 31, 2013
Assets			
Current Assets			
Cash		$ 2,012	$ 13,998
Term deposits	Note 5	-	5,000
Accounts receivable	Note 6	39,981	42,342
Income taxes recoverable		3,011	-
Prepaid expenses and other		257	365
		45,261	61,705
Non-current Assets			
Restricted cash	Note 7	9,381	5,950
Other long term assets		1,025	1,017
Investments in joint ventures	Note 8	6,214	10,092
Property, plant and equipment	Note 9	279,045	212,984
Total Assets		$ 340,926	$ 291,748
Liabilities			
Current Liabilities			
Operating loan facility	Note 6	$ 20,000	$ -
Accounts payable and accrued liabilities	Note 10	28,589	18,865
Deferred revenue		175	334
Dividends payable	Note 17	1,525	1,439
Income taxes payable		-	422
		50,289	21,060
Non-current Liabilities			
Financial instruments	Note 6	226	106
Deferred income taxes	Note 11	27,053	22,738
Pension liability	Note 12	3,426	2,556
Deferred share units	Note 15	91	-
Total Liabilities		81,085	46,460
Shareholders' Equity			
Class A and Class B shares	Note 13	23,871	23,908
Contributed surplus		3,557	3,185
Accumulated other comprehensive income (loss)		(280)	88
Retained earnings		232,693	218,107
Total Equity		259,841	245,288
Total Liabilities and Equity		$ 340,926	$ 291,748

Approved by the Board,

Director

Director

Consolidated Statements of Net Income and Comprehensive Income

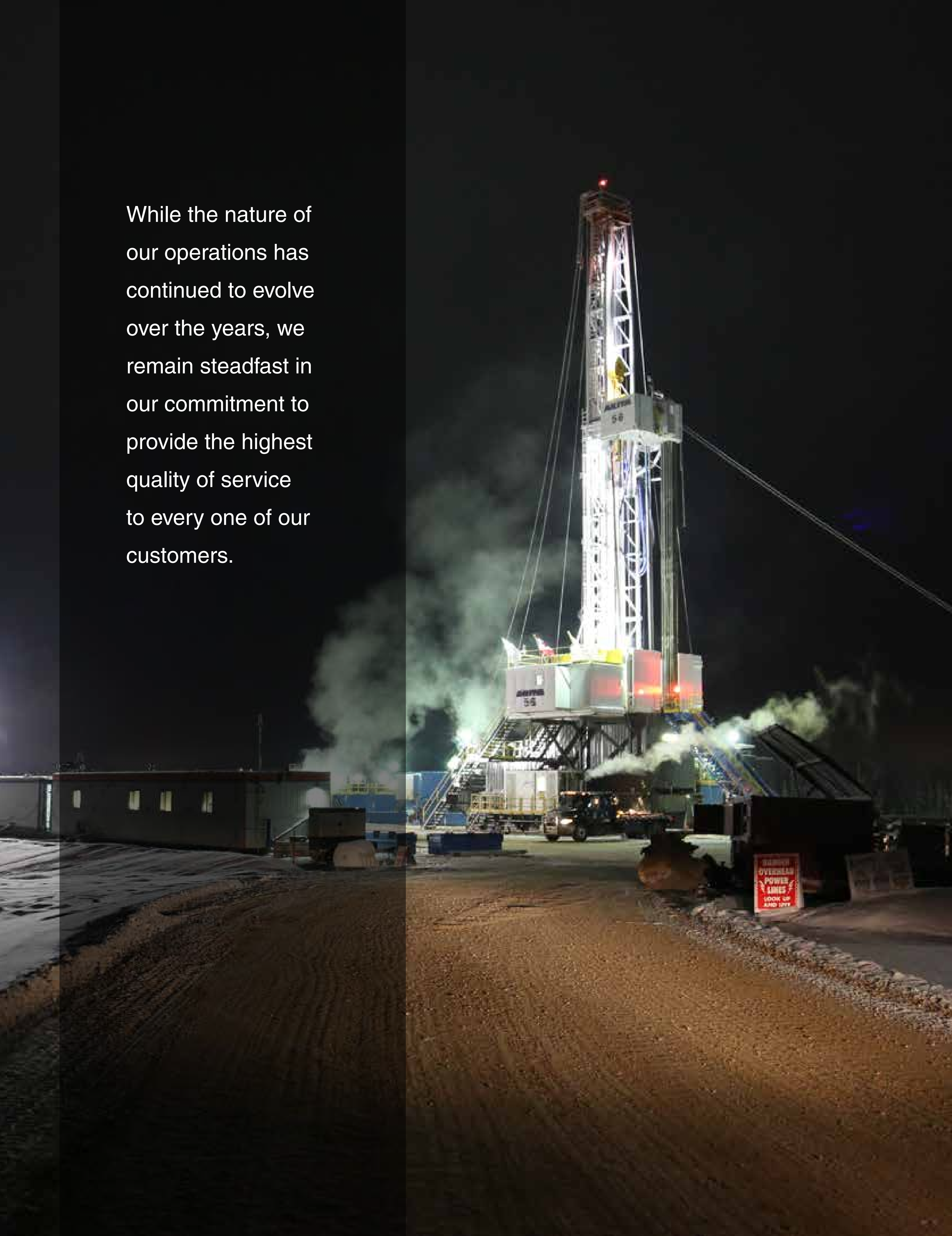
$Thousands except per share amounts		Year Ended December 31 2014	2013
Revenue		$ 165,274	$ 168,111
Costs and expenses			
Operating and maintenance	Note 14	112,590	106,281
Depreciation and amortization	Note 9	30,200	26,825
Selling and administrative	Note 14	18,136	18,843
Total costs and expenses		160,926	151,949
Revenue less costs and expenses		4,348	16,162
Equity income from joint ventures	Note 8	22,996	18,792
Other income (losses)			
Interest income		172	345
Interest expense		(262)	(108)
Gain on sale of assets		536	106
Net other gains		331	385
Total other income		777	728
Income before income taxes		28,121	35,682
Income taxes	Note 11	7,042	9,167
Net income for the year attributable to shareholders		21,079	26,515
Other comprehensive income (loss)		(368)	109
Comprehensive income for the year attributable to shareholders		$ 20,711	$ 26,624
Net income per Class A and Class B Share	Note 16		
Basic		$ 1.17	$ 1.48
Diluted		$ 1.17	$ 1.47

Consolidated Statements of Changes in Shareholders' Equity

$Thousands	Attributable to the Shareholders of the Company						
	Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at December 31, 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
Net income for the year	-	-	-	-	-	21,079	21,079
Remeasurement of pension liability	-	-	-	-	(368)	-	(368)
Shares repurchased	(37)	-	(37)	-	-	(390)	(427)
Stock options charged to expense	-	-	-	372	-	-	372
Dividends	-	-	-	-	-	(6,103)	(6,103)
Balance at December 31, 2014	$ 22,505	$ 1,366	$ 23,871	$ 3,557	$ (280)	$232,693	$259,841

Consolidated Statements of Cash Flows

$Thousands		Year Ended December 31 2014	2013
Operating Activities			
Net income		$ 21,079	$ 26,515
Non-cash items included in net income:			
Depreciation and amortization	Note 9	30,200	26,825
Deferred income taxes	Note 11	4,315	3,852
Expense for defined benefit pension plan	Note 12	392	369
Expense for stock options and deferred share units	Note 15	463	293
Gain on sale of assets		(536)	(106)
Unrealized foreign currency (gain) loss	Note 6	162	(235)
Unrealized loss on financial guarantee contracts	Note 6	120	106
Funds flow from operations		56,195	57,619
Change in non-cash working capital:			
Accounts receivable		2,361	17,662
Prepaid expenses and other		(54)	(206)
Income tax recoverable		(3,011)	4,487
Accounts payable and accrued liabilities		8,853	(21,866)
Deferred revenue		(159)	239
		7,990	316
Equity income from joint ventures	Note 8	(22,996)	(18,792)
Pension benefits paid	Note 12	(15)	(15)
Interest paid		(130)	4
Income tax expense - current	Note 11	2,602	5,352
Income tax paid		(3,024)	(4,930)
Net cash from operating activities		40,622	39,554
Investing Activities			
Capital expenditures	Note 9	(103,949)	(35,113)
Change in non-cash working capital related to capital		1,087	(2,177)
Net distributions from investments in joint ventures	Note 8	26,874	13,525
Change in cash restricted for loan guarantees		(3,431)	(2,950)
Change in term deposits		5,000	(5,000)
Proceeds on sale of assets		8,316	443
Net cash used in investing activities		(66,103)	(31,272)
Financing Activities			
Change in operating loan facility		20,000	-
Dividends paid		(6,015)	(5,567)
Proceeds received on exercise of stock options		-	566
Repurchase of share capital	Note 13	(390)	(126)
Loan commitment fee paid		(100)	(160)
Net cash from (used in) financing activities		13,495	(5,287)
Increase (decrease) in cash		(11,986)	2,995
Cash, beginning of year		13,998	11,003
Cash, End of Year		$ 2,012	$ 13,998



While the nature of our operations has continued to evolve over the years, we remain steadfast in our commitment to provide the highest quality of service to every one of our customers.

Notes to the Consolidated Financial Statements - Index

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

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 35 drilling rigs (31.725 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 1000, 333 – 7th 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, 2014, 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 4, 2015, the date that the Company's Board of Directors approved the consolidated financial 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 Statements of Net 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, operating loan facility, 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 the operating loan facility, 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

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.

Furniture, fixtures and equipment are depreciated using a straight-line basis at 10% per annum.

Buildings are depreciated using the declining balance method at rates varying from 4% to 10% 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

IAS 36 Impairment of Assets sets out requirements for reporting impairment which cover a range of assets (and groups of assets, termed "cash generating units" or CGUs). For the purposes of assessing impairment, assets are grouped into CGUs at the lowest levels for which there are separate identifiable cash flows. The CGUs for the Company's drilling rigs are conventional singles, conventional doubles, conventional triples, pad singles, pad doubles and pad triples.

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.

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 three 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. Deferred share units ("DSUs") and share appreciation rights ("SARs") qualify as a cash settled share-based payment plan under IFRS 2. For all three of the stock-based compensation plans, associated services received are measured at fair value and are calculated by multiplying the number of stock options, DSUs or SARs expected to vest with the fair value of one stock option, DSU 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.

The Company has a cash-settled stock-based long-term incentive compensation plan (DSU) for certain employees. The value of each DSU equates to one Class A Non-Voting share and entitles the holder to receive a cash payment equal to the Company's share price on the payment date. DSU holders are entitled to share in dividends which are credited as additional DSUs at each dividend payment date. DSUs vest immediately but are not exercisable until resignation or retirement from management and/or the Board of Directors.

Units issued under the Company's DSU plan are measured at fair value using the intrinsic value method when granted and subsequently re-measured at each reporting date using the Company's Class A Non-Voting share price at the reporting date with the associated expense recognized in general and administrative expense. The Company assumes a zero forfeiture rate. DSUs are recorded as a long-term liability on the Statement of Financial Position.

In addition to stock options and DSUs, 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.

Impairment of Assets

The impairment test utilized by the Company compared each CGU's carrying amount with its recoverable amount. The recoverable amounts are defined as the higher of the amounts calculated under the fair value less cost of disposal and value in use approaches.

IAS 36 requires an entity to consider both internal and external factors when assessing whether there are indicators of impairment. While the Company did not determine any internal indicators of impairment at December 31, 2014, it did recognize the significant decline in commodity price for crude oil as a potential external indicator of impairment. Further, the carrying amount of AKITA's net assets exceeded its market capitalization at that date. The Company did not note any events that occurred after December 31, 2014 that would provide additional indications of impairment as at December 31, 2014.

The accuracy of impairment testing is affected by the extent and subjectivity of estimates and judgments in respect of the inputs and parameters that are used to determine the recoverable amounts. In performing its impairment tests at December 31, 2014 management determined value in use for its CGUs using estimated discounted cash flows "DCFs", which included estimates of future cash flows, expectations regarding cash flow variability, a determination of the discount rate and consideration of the inherent price of each CGU. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value.

Management used its Budget and Business Plan, as approved on November 14, 2014 by its Board of Directors and subsequently adjusted for weaker market conditions, as its primary basis for its impairment testing at December 31, 2014. Management was not aware of circumstances that would require amendments to the approved Budget and Business Plan as subsequently adjusted in its determination of future cash flows for impairment testing purposes. Cash flows were determined for each of the Company's six operating CGUs: conventional singles, conventional doubles, conventional triples, pad singles, pad doubles and pad triples. While these six operating CGUs encompass 98% of the Company's property, plant and equipment, consideration was also given to other corporate assets in the Company's impairment tests.

Additional significant assumptions used in AKITA's impairment tests at December 31, 2014 included potential annual revenue growth rates (taken as 0%), potential inflation for cash outflows necessary to generate cash inflows for CGUs (taken as 2%), the projected forecast period (taken as up to 10 years per CGU based on the anticipated long life of the rig assets), the discount rate taken based on the Company's pre-tax determination of its weighted average cost of capital (calculated as 8%) and salvage value at the end of each CGU's useful life (determined as 20% of original cost). The generation of cash flows was considered for the Company's CGUs based on the existing condition of each CGU at December 31, 2014.

The Company also performed the following sensitivity tests relative to its impairment testing:

- Decreased future cash flows from its approved budgets as subsequently adjusted by 10%;
- Changed annual revenue growth assumption from 0% to -2% per year;
- Increased inflation for cash outflows from 2% to 4% per year;
- Increased pre-tax discount rate from 8% to 10%; and
- Reduced salvage values from 20% to 15%.

As rigs are long lived assets, no sensitivity adjustment was made for the projected forecast period. The sensitivity tests resulted in reductions to the CGUs' values in use ranging between $9,710,000 and $28,666,000. In all instances the adjusted CGU values in use exceeded the carrying values reported in the financial statements at December 31, 2014. No adjustments to carrying amounts were made as a result of this asset impairment testing process.

Useful Lives of Drilling Rigs

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, 2014, drilling rig depreciation could be either increased or decreased by $2,878,000 (2013 - $2,238,000). 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.

Defined Benefit Pension Liability

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 $3,426,000 at December 31, 2014 (December 31, 2013 - $2,556,000). 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 2014, a key assumption relates to the use of a 3.8% (2013 – 4.7%) discount rate. From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $563,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a $459,000 decrease in the defined benefit obligation. Additionally, if member's lives should be one year longer than actuarial expectations, the defined benefit obligation would increase by $58,000. This pension is an unfunded liability of the Company.

Deferred Income Taxes

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.

Incomplete Transactions

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.

Reclassification of 2013 comparative numbers

The Company reclassified $578,000 from selling and administrative expenses to revenue in the 2013 comparative numbers as the Company misclassified management fee revenue as selling and administrative expenses during 2013. The result of the reclassification was to increase 2013 revenue and selling and administrative expenses by $578,000 with no impact on net income.

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 2014	December 31 2013
Term deposits	$ -	$ 5,000
Effective interest rate (%) on term deposits	N/A	1.5
Average number of days from year-end to maturity for term deposits	N/A	20

6. Financial Instruments

Operating Loan Facility

The Company has an operating loan facility with its principal banker. The facility totals $100,000,000 with the term ending in 2019. At December 31, 2014, the Company had drawn $20,000,000 on its loan facility (2013 - $nil).

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, consist of accounts receivable, inventory, unrestricted cash, term deposits and cash equivalents and the net book value of fixed assets.

The Company is in compliance with its operating loan facility covenants.

Contracts Measured at Fair Value

Forward exchange contracts

The Company entered into forward exchange contracts 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 calculating 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 whereby fair value was determined based on a valuation model that utilized direct observable market data.

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 $226,000 (2013 - $106,000). The fair value measurement of the financial guarantee benefit has a fair value hierarchy of Level 2 whereby fair value was determined based on a valuation model that utilized indirect observable market data.

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 exposed to interest rate risk through its operating loan facility and 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 2014	December 31 2013
Within 30 days	$ 34,642	$ 32,315
31 to 60 days	1,803	7,815
61 - 90 days	2,408	2,028
Over 90 days	1,228	290
Allowance for doubtful accounts	(100)	(106)
Accounts receivable	$ 39,981	$ 42,342

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 first quarter of 2015. At December 31, 2014, the Company had outstanding contracts to buy a total of US$2.5 Million.

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2014 and December 31, 2013, this risk was limited by having 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 2014, three customers (2013 – four 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 effect 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 2014	December 31 2013
Balance held in bank liquid deposit instruments	$ 9,381	$ 5,950

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 $783,000 with respect to these loans.

During 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.

During 2014, the Company guaranteed bank loans made to joint venture partners totaling $5,648,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $5,648,000 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

$Thousands		Investments in Joint Ventures
Balance as at December 31, 2012		4,825
Net income for the year ended December 31, 2013		18,792
Distributions for the year ended December 31, 2013		(13,525)
Balance as at December 31, 2013		10,092
Net income for the year ended December 31, 2014		22,996
Distributions for the year ended December 31, 2014		(26,874)
Balance as at December 31, 2014	**$**	**6,214**

Summarized Joint Venture Financial Information

This summarized financial information is a reconciliation of the Company's investment in Joint Ventures to the aggregate of the amounts included in the IFRS financial statements of the joint ventures which includes both the Company's and Joint Venture partners' interests.

Summarized Joint Venture Financial Information

$Thousands	AKITA % Dec 31 2014	JV Partner % Dec 31 2014	Total Dec 31 2014	AKITA % Dec 31 2013	JV Partner % Dec 31 2013	Total Dec 31 2013
Cash and cash equivalents	$ 3,018	$ 1,111	$ 4,129	$ 8,375	$ 1,916	$ 10,291
Other current assets	9,673	4,425	14,098	6,254	2,427	8,681
Non-current assets	55	-	55	55	-	55
Total Assets	12,746	5,536	18,282	14,684	4,343	19,027
Current liabilities	6,144	2,582	8,726	3,815	1,743	5,558
Non-current liabilities	388	69	457	777	137	914
Total Liabilities	6,532	2,651	9,183	4,592	1,880	6,472
Net Assets	$ 6,214	$ 2,885	$ 9,099	$ 10,092	$ 2,463	$ 12,555
Revenue	$ 64,090	$ 25,203	$ 89,293	$ 48,841	$ 14,773	$ 63,614
Net income and comprehensive income	$ 22,996	$ 7,473	$ 30,469	$ 18,792	$ 4,663	$ 23,455

9. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Additions	121	102,084	1,744	103,949
Disposals	(59)	(31,213)	(623)	(31,895)
Balance as at December 31, 2014	**$ 4,302**	**$ 458,157**	**$ 8,937**	**$ 471,396**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Disposals	(59)	(23,433)	(623)	(24,115)
Depreciation expense	82	28,777	1,249	30,108
Balance as at December 31, 2014	**$ 1,191**	**$ 185,134**	**$ 6,026**	**$ 192,351**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
As at December 31, 2014	**$ 3,111**	**$ 273,023**	**$ 2,911**	**$ 279,045**

At December 31, 2014, the Company had $16,094,000 in Property, Plant and Equipment that was not being depreciated, as these assets were under construction (December 31, 2013 – $9,064,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $92,000 for the year ended December 31, 2014 (2013- $63,000).

10. Accounts Payable and Accrued Liabilities

$Thousands	December 31 2014	December 31 2013
Trade payables	$ 11,244	$ 7,315
Statutory liabilities	13,747	10,119
Accrued expenses	3,598	1,431
	$ 28,589	$ 18,865

11. Income Taxes

Income tax expense is comprised of the following:

$Thousands	Year Ended December 31 2014	Year Ended December 31 2013
Current tax expense	$ 2,602	$ 5,352
Deferred tax expense	4,440	3,815
	$ 7,042	$ 9,167

The following table reconciles the income tax expense using a weighted average Canadian federal and provincial rate of 25.39% (2013 – 25.49%) to the reported tax expense. The rate decrease is due to more of the Company's revenue being earned in provinces with lower 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.

$Thousands	Year Ended December 31 2014	Year Ended December 31 2013
Income before income taxes	$ 28,121	$ 35,682
Expected income tax at statutory rate of 25.39% (2013 – 25.49%)	7,140	9,095
Add (Deduct):		
Change in deferred income tax rates	(86)	94
Permanent differences	141	103
Other	(153)	(125)
Income tax expense	$ 7,042	$ 9,167

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 $Thousands	**Property, plant and equipment**	**Employee pension benefits**	**Other**	**Total**
Balance as at December 31, 2012	18,916	(595)	565	18,886
Charged/(credited) to net income	3,885	(94)	24	3,815
Charged to OCI	-	37	-	37
Balance as at December 31, 2013	22,801	(652)	589	22,738
Charged/(credited) to net income	4,552	(93)	(19)	4,440
Credited to OCI	-	(125)	-	(125)
Balance as at December 31, 2014	**$ 27,353**	**$ (870)**	**$ 570**	**$ 27,053**

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 14, 2015 and was utilized in measuring the December 31, 2014 balances.

$Thousands	2014	2013
Actuarial present value of defined benefit obligation at January 1	$ 2,556	$ 2,348
Interest cost	132	104
Current service cost	260	265
Benefits paid	(15)	(15)
Unrealized actuarial (gain) loss	493	(146)
Actuarial present value of defined benefit obligation at December 31	$ 3,426	$ 2,556

Key Assumptions:

%	December 31 2014	December 31 2013
Discount rate	3.80	4.70

The anticipated retirement age of the plan members is 61 to 65 years (2013 – 61 to 65 years).

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 2014	December 31 2013
Defined benefit plan		
Interest cost	$ 132	$ 104
Current service cost	260	265
Expense for defined benefit plan	392	369
Expense for defined contribution plan	4,564	5,199
	$ 4,956	$ 5,568

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, 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**
Shares repurchased in 2014	(27,600)	-	(27,600)
Shares outstanding at December 31, 2014	**16,291,877**	**1,653,784**	**17,945,661**

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 4, 2015 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 4, 2015 represented 27.6% of the Class A Non-Voting Shares.

During 2013 as well as the first five months of 2014, the Company had outstanding normal course issuer bids for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2014, 27,600 shares were repurchased and cancelled under normal course issuer bids at a cost of $427,000 of which $37,000 was charged to share capital and $390,000 was charged to retained earnings. 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. The normal course issuer bid expired on May 29, 2014.

14. Expenses by Nature

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

$Thousands	Year Ended December 31 2014	December 31 2013
Expenses		
Salaries, wages and benefits	$ 87,754	$ 88,520
Materials and supplies	17,295	11,563
Repairs and maintenance	17,429	16,285
External services and facilities	8,248	8,756
	$ 130,726	$ 125,124
Allocated to:		
Operating and maintenance	$ 112,590	$ 106,281
Selling and administrative	18,136	18,843
	$ 130,726	$ 125,124

15. Stock-based Compensation Plans

a. Stock options

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

(Number of Options)	December 31 2014	December 31 2013
Reserved under current stock option plan	1,700,000	1,700,000
Balance at beginning of year	568,500	677,000
Granted during the year	(130,000)	(108,500)
Available for future issuance	438,500	568,500

A summary of the status of the Company's stock-based compensation plans as of December 31, 2014 and 2013, and changes during the years ended on those dates is presented below:

	2014		2013	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Options outstanding at January 1	447,000	11.09	442,000	10.22
Options granted	130,000	16.02	108,500	13.81
Options exercised	-	-	(54,200)	10.07
Options expired	-	-	(49,300)	10.39
Options outstanding at December 31	577,000	12.20	447,000	11.09
Options exercisable at December 31	354,300	11.04	240,100	10.48

The following table summarizes outstanding stock options at December 31:

		2014			2013		
Vesting Period (Years)	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
5	9.87	150,000	5.2	150,000	150,000	6.2	120,000
3	10.32	6,000	6.2	6,000	6,000	7.2	6,000
5	10.32	91,000	6.2	72,800	91,000	7.2	54,600
5	10.86	97,500	7.2	58,500	97,500	8.2	39,000
5	13.81	102,500	8.7	41,000	102,500	9.7	20,500
5	16.02	130,000	9.7	26,000			
Weighted Average Contractual Life			7.3			7.7	

b. Deferred share units

A summary of the status of the Company's deferred share unit plan as of December 31, 2014, and changes during the year is presented below:

	2014	
$Thousands	Deferred Share Units (#)	Fair Value
Deferred share units outstanding at January 1	-	$ -
Granted during the year	7,229	120
Issued in lieu of dividends	80	1
Change in fair value during the year	-	(30)
Deferred share units outstanding at December 31	7,309	$ 91

c. Shared based compensation expense

	Year Ended	
$Thousands	December 31 2014	December 31 2013
Stock options	$ 372	$ 293
Deferred share units	91	-
Total	$ 463	$ 293

The stock option expense was determined using the Binomial Model based on the following assumptions. Expected volatility is calculated by examining a historical 60 month trading history up to the grant date, where significant outliers are excluded to provide a better estimate.

	2014	2013
Risk free interest rate	1.54%	2.18%
Expected volatility	29.0%	33.7%
Dividends yield rate	2.20%	3.40%
Option life	5.4 years	5.4 years
Weighted average share price	$ 16.02	$ 13.81
Forfeiture rate	0.00%	0.00%
Fair value of options	$ 3.76	$ 3.50

d. Share appreciation rights

The Company did not have any outstanding SARs during either 2014 or 2013; therefore no corresponding liability is recorded on the Statement of Financial Position.

16. Net Income per Share

	Year Ended	
	December 31 2014	December 31 2013
Net income ($Thousands)	$ 21,079	$ 26,515
Weighted average outstanding shares	17,948,502	17,969,415
Incremental shares for diluted earnings per share calculation	110,504	86,567
Weighted average outstanding shares for diluted earnings per share	18,059,006	18,055,982
Basic earnings per share ($)	$ 1.17	$ 1.48
Diluted earnings per share ($)	$ 1.17	$ 1.47

17. Dividends per Share

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

Declaration Date	Payment Date	Per Share ($)	Total ($000's)
March, 2013	April, 2013	0.080	1,439
May, 2013	July, 2013	0.080	1,437
August, 2013	September, 2013	0.080	1,435
November, 2013	January, 2014	0.080	1,439
March, 2014	April, 2014	0.085	1,526
May, 2014	July, 2014	0.085	1,526
August, 2014	October, 2014	0.085	1,525
November, 2014	January, 2015	0.085	1,525

18. 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.

19. 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 2014	December 31 2013
Revenue (computer services, rent)	$ 76	$ 76
Purchases		
Property, plant and equipment (wellsite trailers)	-	328
Operating (sponsorship and advertising (Note 20), other)	430	390
Year end accounts payable	5	5

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 2014	December 31 2013
Revenue	$ 33	$ 78
Operating costs	9,438	7,298
Selling and administrative costs	1,066	758
Year end accounts payable	4,626	2,948

c. Legal fees

The Company incurred legal fees of $74,000 (2013 - $83,000) 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, 2014. At December 31, 2014, $2,000 (December 31, 2013 - $1,000) 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 2014	December 31 2013
Salaries, directors fees and other short-term benefits	$ 2,293	$ 3,638
Post-employment benefits	516	497
Share-based payments	766	547
Year end compensation payable	240	1,505

20. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2014, the Company had four rigs, including three joint venture rigs, with multi-year contracts. Of these contracts, two are anticipated to expire in 2016, one in 2018 and one in 2019.

The Company entered into two contracts with a related party to provide sponsorship and advertising at an annual cost of $325,000.

The Company leases its office space at an average annual cost of approximately $810,000 per year. This lease expires on December 31, 2019.

At December 31, 2014, the Company had capital expenditure commitments of $5,988,000 due in 2015 (2013 – $22,104,000 due in 2014).

21. Changes in Accounting Policies and Estimates

Stock based compensation – Deferred Share Units

During the second quarter of 2014, the Company established a cash-settled stock-based long-term incentive compensation plan for certain employees. The value of each Deferred Share Unit ("DSU") equates to one Class A Non-Voting share and entitles the holder to receive a cash payment equal to the Company's share price on the payment date. DSU holders are entitled to share in dividends which are credited as additional DSUs at each dividend payment date. DSUs vest immediately but are not exercisable until resignation or retirement from management and/or the Board of Directors.

Units issued under the Company's DSU plan are measured at fair value using the intrinsic value method when granted and subsequently re-measured at each reporting date using the Company's Class A Non-Voting share price at the reporting date with the associated expense recognized in general and administrative expense. The Company assumes a zero forfeiture rate. DSUs are recorded as a long-term liability on the Statement of Financial Position.

22. Accounting Changes Not Yet Adopted

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are not required to be adopted in the current period. The Company has not early adopted these standards or interpretations. The standards which the Company anticipated may have a material effect on the consolidated financial statements or note disclosures are described below.

IFRS 15 Revenue from Contracts with Customers replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the new standard.

IFRS 9, Financial Instruments, was amended in July 2014, which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively. The Company is currently evaluating the impact of the new standard on its financial statements.

There are no other standards or interpretations that have been issued, but are not yet effective, that the Company anticipates will have a material effect on the consolidated financial statements once adopted.

10 Year Financial Review

$Thousands (except per share)	Annual Ranking	2014	2013	2012
Summary of Operations				
Revenue	5	$ 165,274	$ 168,111	$ 203,440
Income before income taxes	7	$ 28,121	$ 35,682	$ 38,413
Income taxes	8	$ 7,042	$ 9,167	$ 9,658
Net income	6	$ 21,079	$ 26,515	$ 28,755
As a percentage of average shareholders' equity	7	8.3%	11.3%	13.5%
Earnings per Class A and Class B share (basic)	6	$ 1.17	$ 1.48	$ 1.60
Funds flow from operations	3	$ 56,195	$ 57,619	$ 59,412
As a percentage of average shareholders' equity	6	22.2%	24.6%	28.0%
Financial Position at Year End				
Working capital (deficiency)	10	$ (5,028)	$ 40,645	$ 31,214
Current ratio	10	0.90:1	2.93:1	1.70:1
Total assets	1	$ 340,926	$ 291,748	$ 289,368
Shareholders' equity	1	$ 259,841	$ 245,288	$ 223,695
per share	1	$ 14.48	$ 13.65	$ 12.49
Other				
Capital expenditures (Net)	1	$ 103,949	$ 35,113	$ 65,356
Depreciation and amortization	1	$ 30,200	$ 26,825	$ 24,342
Dividends paid	1	$ 6,015	$ 5,567	$ 5,038
per share	1	$ 0.34	$ 0.32	$ 0.28

Note: Financial information has been calculated under Canadian GAAP for the years 2005 to 2009 and under IFRS for the years 2010 through 2014. Readers should be aware that these two sets of accounting standards are not consistent with each other. Revenue and working capital amounts reported for 2012 through 2014 include revenue and working capital solely generated by the Company from its wholly owned operations.

2011	2010	2009	2008	2007	2006	2005
$ 199,934	$ 145,138	$ 106,263	$ 137,246	$ 141,962	$ 174,543	$ 162,110
$ 31,762	$ 10,932	$ 11,901	$ 20,133	$ 28,667	$ 48,129	$ 44,770
$ 8,409	$ 3,462	$ 3,521	$ 7,147	$ 7,525	$ 14,374	$ 15,506
$ 23,353	$ 7,470	$ 8,380	$ 14,847	$ 20,752	$ 33,755	$ 29,264
12.1%	4.1%	4.2%	7.7%	11.5%	21.0%	21.4%
$ 1.29	$ 0.41	$ 0.46	$ 0.81	$ 1.14	$ 1.83	$ 1.57
$ 42,895	$ 32,798	$ 23,960	$ 34,149	$ 37,143	$ 47,199	$ 42,421
22.3%	17.9%	12.0%	17.6%	20.6%	29.4%	31.0%
$ 44,265	$ 61,341	$ 69,819	$ 63,089	$ 49,123	$ 56,681	$ 59,499
2.37:1	4.04:1	7.02:1	3.90:1	3.92:1	2.77:1	2.74:1
$ 247,130	$ 218,587	$ 234,215	$ 242,869	$ 223,522	$ 222,237	$ 199,852
$ 201,104	$ 183,739	$ 201,446	$ 198,461	$ 188,038	$ 172,873	$ 148,366
$ 11.15	$ 10.19	$ 11.05	$ 10.89	$ 10.29	$ 9.43	$ 8.00
$ 54,509	$ 36,293	$ 11,835	$ 14,622	$ 33,505	$ 40,655	$ 18,386
$ 20,933	$ 24,540	$ 17,476	$ 16,667	$ 15,164	$ 14,211	$ 12,691
$ 5,066	$ 5,079	$ 5,105	$ 5,111	$ 5,117	$ 4,448	$ 4,182
$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.24	$ 0.225

Integrity

We have the courage to do the right thing, acting ethically, safely and decisively in all that we do.

Respect

We value our people, our partners, and our environment both in our words and our actions. We treat all those we encounter with dignity, demonstrating care and concern by listening to understand and speaking to be understood.

Commitment

We relentlessly pursue excellence in all that we do, setting and accomplishing ambitious financial, operational and personal goals. We are passionate lifelong learners, working steadfast as a team until success has been achieved.

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 Ltd,,
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

Henry G. Wilmot
Corporate Director,
Calgary, Alberta

Charles W. Wilson
Corporate Director,
Evergreen, Colorado

Officers

Raymond T. Coleman
Vice President, Operations

Colin A. Dease
Corporate Secretary

Fred O. Hensel
Vice President, Marketing

Craig W. Kushner
Director of Human Resources

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

Karl A. Ruud
President and Chief Executive Officer

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Alberta Treasury Branches
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PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

CST Trust Company
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Share Symbol / TSX

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

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