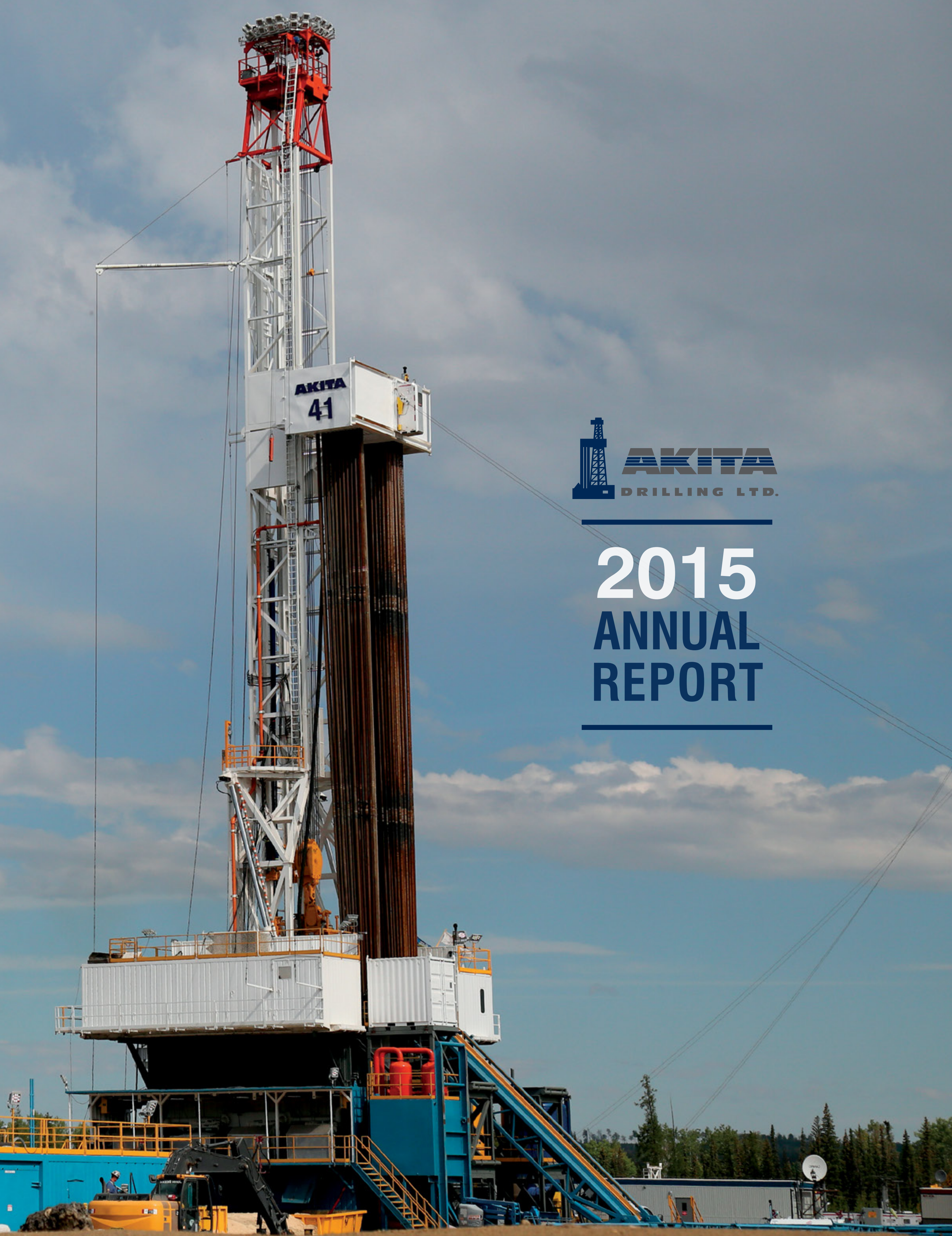
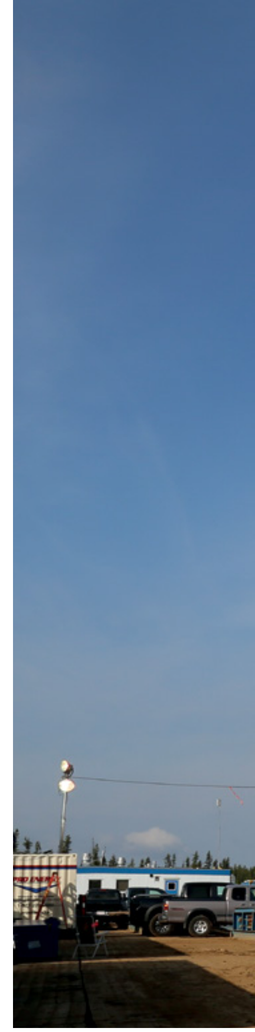


AKITA DRILLING LTD.

2015 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, First Nations and Aboriginal partnerships, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in pad and other purpose-built drilling rigs and is active in directional, horizontal and underbalanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs, at full operations, approximately 600 people. The Company has ownership in 31 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 10, 2016 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, global liquified natural gas (LNG) demand, 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 2015 Annual Report for AKITA.

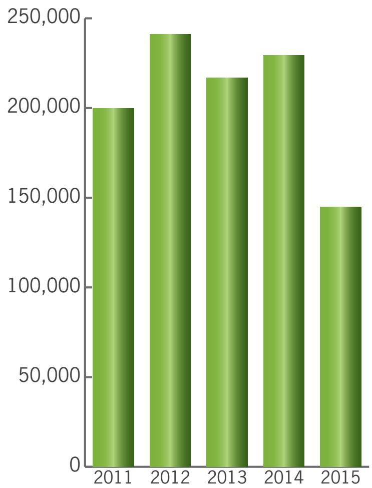
On the cover:
Rig 41, AKITA's newest pad rig drilling in the Grande Prairie area.

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

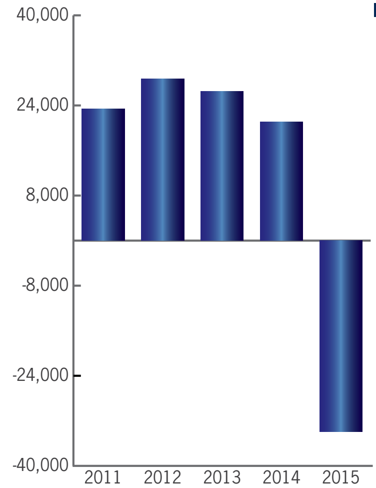
Operational Performance

Adjusted Revenues
(000's)



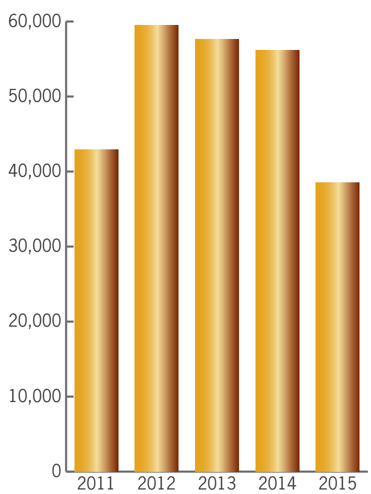
In 2015, adjusted revenue (Note) was 32% lower than 2014 adjusted revenue due to a drop in demand resulting primarily from a significantly lower commodity prices for crude oil and natural gas.

Net Earnings
($000's)



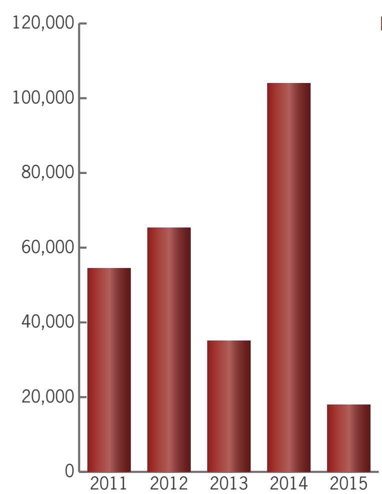
AKITA recorded the first loss in its history in 2015. Weaker drilling activity, asset impairment charges and higher depreciation expense were all contributing factors for this loss.

Funds Flow from Operations
(000's)



Annual funds flow for 2015 was 31% lower than in 2014 due to weaker drilling activity but was still sufficient to fund capital expenditures, pay dividends and eliminate all of the Company's bank borrowings.

Capital Expenditures
($000's)



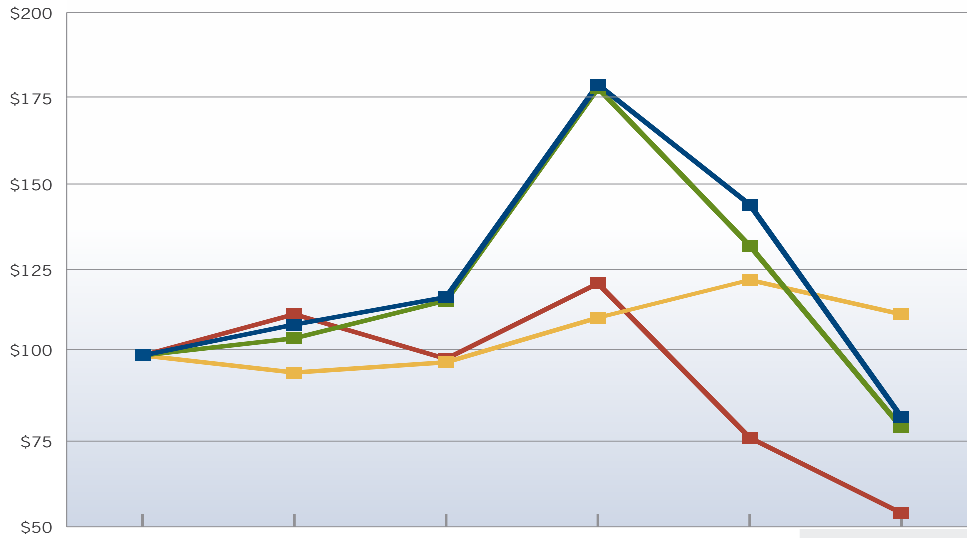
AKITA's 2015 capital expenditure program was scaled back from 2014 record levels to take into consideration weaker market conditions. In 2015, the Company added one new pad rig to its fleet.

Note: A change in International Financial Reporting Standards that became effective for 2012 and future reporting years, no longer permits proportionate consolidation of joint venture activities for unadjusted 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, 2010 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.



	Dec 31 2010	Dec 31 2011	Dec 31 2012	Dec 31 2013	Dec 31 2014	**Dec 31 2015**
AKITA Class A Non-Voting	100	109	117	179	144	**82**
AKITA Class B Common	100	105	116	178	132	**79**
S&P/TSX Composite Index	100	95	98	111	122	**112**
TSX Oil & Gas Drilling Sub-Index	100	112	99	121	76	**54**

Share Performance

		2011	2012	2013	2014	**2015**
Weighted average number of Class A Non-Voting and Class B Common shares		18,083,411	17,988,552	17,969,415	17,948,502	**17,945,661**
Market prices for Class A Non-Voting shares	High	$ 12.75	$ 11.89	$ 16.61	$ 17.86	**$ 12.56**
	Low	$ 9.18	$ 9.21	$ 10.30	$ 11.15	**$ 6.10**
	Close	$ 10.70	$ 10.50	$ 15.79	$ 12.40	**$ 6.79**
Volume		1,231,978	2,103,087	3,345,199	2,093,823	**1,603,746**
Market prices for Class B Common shares	High	$ 12.65	$ 11.39	$ 16.79	$ 18.30	**$ 13.30**
	Low	$ 9.80	$ 9.94	$ 10.65	$ 11.75	**$ 6.87**
	Close	$ 10.25	$ 11.00	$ 16.50	$ 12.00	**$ 6.87**
Volume		14,436	16,683	18,393	21,019	**32,326**

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.

	2011	2012	2013	2014	**2015**
Dividends paid per share ($)	0.28	0.28	0.32	0.34	**0.34**

Letter to the Shareowners

Linda A. Southern-Heathcott
Chairman of the Board

Karl Ruud
President and
Chief Executive Officer

AKITA Drilling Ltd.'s net loss for the year ended December 31, 2015 was $33,965,000 (net loss of $1.89 per share (basic and diluted)) on revenue of $112,488,000 compared to net income of $21,079,000 or $1.17 per share (basic and diluted) on revenue of $165,274,000 in 2014. The 2015 results include an asset impairment expense of $41,968,000 (after tax effect of $30,748,000 or $1.71 per share) with respect to certain of its rigs in addition to a net loss of $3,217,000 (net loss of $0.18 per share) as a result of routine operations. Funds flow from operations for the current year was $38,510,000 compared to $56,195,000 in 2014, while net cash from operating activities for 2015 was $41,507,000 compared to $40,622,000 in 2014.

The year 2015 was challenging for AKITA. Low commodity prices for crude oil and natural gas were the fundamental factors in AKITA generating the fewest operating days in the Company's 23 year history. In addition to low commodity prices, for the first time in the history of AKITA, the Company recorded asset impairment charges as previously noted. Furthermore, net loss was adversely affected due to a 20% increase in corporate income tax rates in Alberta.

AKITA's rig utilization exceeded industry average for the fifth consecutive year, despite the adversities AKITA faced in 2015. 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 the benefit of significant exposure to pad drilling. The following table highlights AKITA's utilization rates for the past five years:

Rig Utilization Rates

Percent	**2015**	2014	2013	2012	2011
AKITA Pad Rigs	**47.2**	64.8	71.9	61.7	67.9
AKITA Overall Fleet	**30.9**	48.6	43.4	48.3	51.5
Industry	**23.2**	44.3	40.3	41.6	49.6

Despite weak market conditions, AKITA continued to enhance its strong financial position throughout 2015, managing to eliminate all of its $20 Million in bank borrowings as well as building its cash position to over $9 Million by year-end. At December 31, 2015, the Company had $16 Million in positive working capital, no long-term debt and access to a $100 Million bank lending facility. This financial capacity will go a long way to ensure the Company's viability through this market weakness and it also leaves AKITA well positioned to undertake opportunities that might arise.

AKITA continued to enhance its pad rig strategy in 2015, albeit at a slower pace than during the previous year, when the Company had a record capital expenditure program. During the second quarter of 2015, AKITA completed construction and commenced operations with Rig 41, a 6,000 metre capacity rig designed to be competitive for deep gas pad applications. This rig, which cost $24 Million to build, was the most significant capital expenditure during 2015. By year-end, 21 of the Company's fleet of 31 rigs were capable of pad drilling.

AKITA maintains a commitment to safety that permeates all levels of the organization. Since inception, AKITA's annual safety performance has been better than industry averages. AKITA's 2015 total reportable accident frequency (often referred to as "TRIF") was the best in the Company's history, showing a 16% improvement over the Company's previous record. Field employees complete extensive safety training and must meet current industry certification standards. Managers, employees and subcontractors are all required to understand and accept their responsibility for maintaining a safe working environment.

On November 18, 2015, the Canadian Association of Oilwell Drilling Contractors ("CAODC") released its 2016 industry drilling forecast estimating 22% average rig utilization compared to 23.2% actual average rig utilization in 2015. The 2016 forecast was based upon commodity price assumptions of US $45 per barrel for crude oil and CAD $2.80 per mcf for natural gas. Drilling activity for the year-to-date period in 2016, together with much lower than anticipated crude oil spot prices, would suggest that anticipated drilling activity for the year will be lower than the CAODC forecast.

We would like to express our appreciation for the support of our shareholders in these difficult market conditions. The Company also appreciates the continuing support of its customers as well as the reliability of its many suppliers. Of course, much of the credit for AKITA's success lies with our dedicated employees, whose hard work is reflected in the industry leading performance achieved. Finally, we wish to acknowledge the contribution of our directors whose wise counsel and guidance have helped to create and maintain a strong and successful Company.

Retiring from the Board this year is Art Eastly, a director for the past 10 years. Mr. Eastly has been Chair of the Pension Committee as well as a key member of the Audit Committee and GOCOM and has provided a great sense of acumen, experience and judgment in all of his Board activities. We wish Mr. Eastly all the best in his future endeavours and thank him for his invaluable contributions. Although his straight-forward common sense approach will sincerely be missed by all, AKITA remains well positioned to meet the ever changing demands of its business.

It is with great sadness that we advise of the recent death of the Company's Founder, Ronald D. Southern. As Founder, Mr. Southern played a pivotal role in every major development in the evolution of the Company. He was instrumental in leading AKITA's predecessor company from its origins in the 1970s, through its spin-off from the ATCO Group and through the formation of AKITA as a public company in 1993 to the present day. Under Mr. Southern's guidance the Company expanded its presence into the Arctic, developed strong joint venture relationships with First Nations, Inuit and Métis groups across western and northern Canada, and was at the forefront of pad rig development and expansion in western Canada. Each of these achievements was executed with a long-term focus and with fiscal prudence. Mr. Southern's wisdom, passion, resolve and vision will be greatly missed by AKITA; the lessons he instilled and his lifelong commitment to excellence will continue to guide the Company.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott	Karl A. Ruud
Chairman of the Board	President and Chief Executive Officer

March 3, 2016

Management's Discussion & Analysis

The following sets out management's discussion and analysis ("MD&A") of the consolidated financial position as at December 31, 2015 and 2014, and 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, 2015 and 2014. 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 2015 and 2014, including the notes thereto, found on pages 34 - 65 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 3, 2016 and incorporates all relevant considerations to that date.

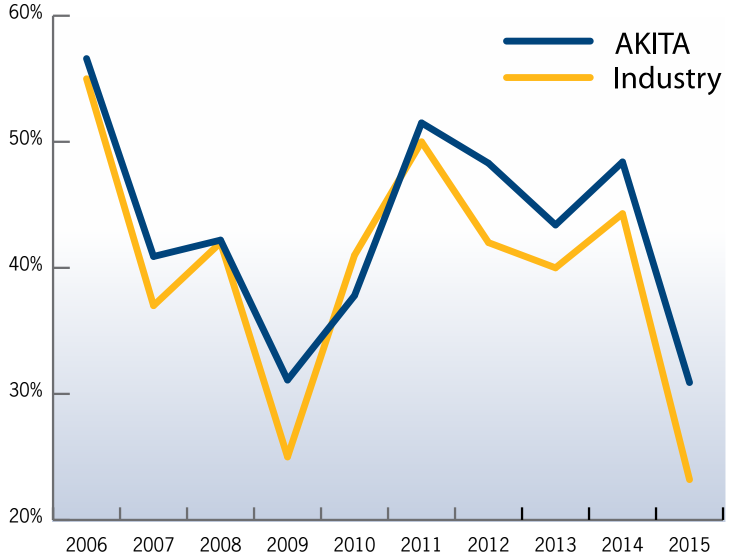
Management has prepared this MD&A as well as the accompanying consolidated financial statements and the notes thereto. All financial information is reported in Canadian dollars.

Introduction and General Overview

AKITA is a premier Canadian oil and gas drilling contractor. During 2015, the Company conducted operations in British Columbia, Alberta and Saskatchewan. The Company strives to be the industry leader in customer relations, First Nations and Aboriginal partnerships, 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 31 rigs were located in Western Canada at December 31, 2015.

AKITA's strategy has focused on constructing new rigs and retrofitting existing rigs in response to specific customer requirements. This strategy enables AKITA to secure long-term drilling contracts with customers who request specific rig configurations, and at the same time to either expand or upgrade its fleet. The Company utilizes this strategy to enhance its development of pad rigs designed for both heavy oil and natural gas located in shale formations as well as for other specialty applications. In 2015, the Company completed the construction of one new pad rig targeting liquified natural gas (LNG) related drilling opportunities.

Ten Year Historical Rig Utilization Rates



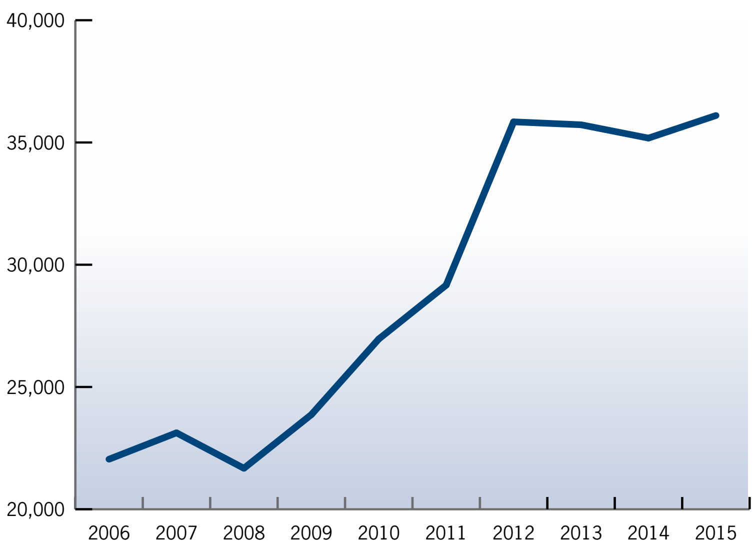
Oil and gas contract drilling activity is cyclical and is subject to numerous factors including world crude oil prices and North American natural gas prices. Overall demand for AKITA's drilling services declined significantly in 2015 compared to 2014 as illustrated in the accompanying chart of rig utilization rates.

There were three key takeaways relative to this change:

1. Both conventional rig and pad rig utilization were adversely affected in 2015;
2. Conventional rig utilization was hit harder than pad rig utilization; and
3. Since 64% of the Company's fleet is comprised of pad rigs, the oveall magnitude of lower utilization for the Company was more highly correlated to weaker pad rig activity.

AKITA's revenue per day is increasingly influenced by the number of pad rigs in the Company's fleet. At December 31, 2015, 64% of the Company's rigs were pad rigs, up from 57% at the end of 2014, and up from 11% 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 2006 to 2009 and under International Financial Reporting Standards ("IFRS") for the years 2010 to 2015. 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 2015 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".

"We do not seek maximum growth…
we seek sustainable, optimum, profitable growth ...
which is not quite the same thing."

- R.D. Southern

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 it does 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, however, as it provides an indication of the profitability of the business prior to the influence of depreciation, asset impairment, 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 influence 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	2015	2014	Change	% Change
Revenue per financial statements	**112.5**	165.3	(52.8)	(32%)
Proportionate share of revenue from joint ventures (1)	**32.5**	64.1	(31.6)	(49%)
Adjusted revenue (1)	**145.0**	229.4	(84.4)	(37%)

$Millions	2015	2014	Change	% Change
Operating and maintenance expenses per financial statements	**74.0**	112.6	(38.6)	(34%)
Proportionate share of operating and maintenance expenses from joint ventures (1)	**20.8**	40.3	(19.5)	(48%)
Adjusted operating and maintenance expenses (1)	**94.8**	152.9	(58.1)	(38%)

$Millions	2015	2014	Change	% Change
Adjusted revenue (1)	**145.0**	229.4	(84.4)	(37%)
Adjusted operating and maintenance expenses (1)	**94.8**	152.9	(58.1)	(38%)
Adjusted operating margin (1) (2)	**50.2**	76.5	(26.3)	(34%)

$Dollars	2015	2014	Change	% Change
Adjusted revenue per operating day (1)	**36,102**	35,179	923	3%
Adjusted operating and maintenance expenses per operating day (1)	**23,620**	23,450	170	1%
Adjusted operating margin per operating day (1) (2)	**12,482**	11,729	753	6%

(1) 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".

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

Adjusted revenue of $144,951,000 in 2015 was 37% lower than the 2014 adjusted revenue of $229,364,000 primarily as a result of decreased rig activity. While all rig categories were affected, on a proportionate basis the declines were most pronounced for AKITA's conventional rigs. Although adjusted revenue for 2015 decreased compared to the previous year, adjusted revenue per operating day increased to $36,102 during 2015 from $35,179 during 2014 due to an increased proportion of the Company's revenue being generated by its pad drilling rigs versus conventional rigs. Pad rigs, compared to conventional rigs, typically generate higher revenue on a "per day" basis.

Adjusted operating and maintenance costs are tied to activity levels and amounted to $94,834,000 or $23,620 per operating day during 2015 compared to $152,891,000 or $23,450 per operating day for the prior year. The reduction in operating and maintenance costs, when considered on a totals basis, is directly related to the lower level of activity in 2015 compared to 2014. However, in 2015, the higher proportion of drilling that was performed by AKITA's pad rigs resulted in a slight increase in operating and maintenance costs per operating day compared to the previous year.

The Company's adjusted operating margin for 2015 was $50,117,000 ($12,482 per operating day), compared to $76,473,000 ($11,729 per operating day) in 2014. Although the overall operating margin decreased in 2015 compared to 2014 as a result of lower drilling activity, AKITA's operating margin per operating day increased as a result of a change in rig mix that included a higher proportion of pad rigs working.

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 2015 and 2014 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, 2015, AKITA had no deferred revenue related to these activities (December 31, 2014 - $175,000).

AKITA provided drilling services to 27 different customers in 2015 (2014 - 36 different customers), including three customers that each provided more than 10% of AKITA's revenue for the year (2014 – three customers).

Depreciation and Amortization Expense

$Millions	2015	2014	Change	% Change
Depreciation and amortization expense	36.7	30.2	6.5	22%

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 $36,748,000 during 2015 from $30,200,000 during 2014 was mostly attributable to the higher average cost base for drilling rigs partially offset by lower drilling activity. Drilling rig depreciation accounted for 97% of total depreciation and amortization expense in 2015 (2014 – 96%).

Selling and Administrative Expenses

$Millions	2015	2014	Change	% Change
Selling and administrative expenses per financial statements	15.1	18.1	(3.0)	(17%)
Proportionate share of selling and administrative expenses from joint ventures (1)	0.4	0.8	(0.4)	(50%)
Adjusted selling and administrative expenses (1)	15.5	18.9	(3.4)	(18%)

(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 decreased to $15,524,000 in 2015 from $18,929,000 in 2014. Adjusted selling and administrative expenses equated to 10.7% of adjusted revenue in 2015, compared to 8.2% of adjusted revenue in 2014, as a result of decreased adjusted revenue.

While cost reductions compared to 2014 occurred for both personnel and non-personnel related activities, the single largest component of adjusted selling and administrative expenses was salaries and benefits which accounted for 57% of these expenses in 2015 (2014 - 61%).

Asset Impairment Loss

$Millions	2015	2014	Change	% Change
Asset impairment loss	42.0	-	42.0	N/A

International Accounting Standard 36, "Impairment of Assets", requires an entity to consider both internal and external factors when assessing whether there are indications of asset impairment at each reporting period. While the Company did not determine any internal indicators of impairment at December 31, 2014, it did determine two potential external indicators of impairment at that date: a significant decline in the price of crude oil; and the carrying amount of AKITA's net assets exceeding the Company's market capitalization. Both of these indicators continued to remain applicable throughout 2015. The price of crude oil declined throughout most of 2015, resulting in further deterioration in the overall Canadian drilling market, compared to 2014. In addition, management determined that, as a result of this additional weakening of crude oil prices, secondary opportunities to capture value for AKITA's drilling fleet had also become more limited, especially during the last six months of 2015.

The accuracy of asset impairment testing is affected by estimates and judgments in respect of the inputs and parameters that are used to determine recoverable amounts. In performing its impairment tests during 2015 including at December 31, 2015, management determined value in use for each of its cash generating units ("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 recoverable amount and salvage value of each CGU. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value.

AKITA recorded the first asset impairment loss in its history at September 30, 2015. With respect to the impairment loss recorded that date, management used its preliminary 2016 budget and business plan inputs as well as subsequent internal forecasts as its primary bases for impairment testing. Cash flows were determined for each of the Company's five CGUs: conventional singles, conventional doubles, conventional triples, pad doubles and pad triples. While these five 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 asset impairment tests at September 30, 2015 included potential annual revenue growth rates (0%), potential inflation for cash outflows necessary to generate cash inflows for CGUs (2%), the projected forecast period (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 (8%) and salvage value at the end of each CGU's useful life (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 September 30, 2015.

During the fourth quarter of 2015, management determined that the previous CGU classification did not adequately address the competitive role of each rig within a rig category or between rig categories given the current economic conditions. Consequently, the Company established new CGU breakdowns that more clearly categorize AKITA's rigs according to the functional, rather than structural, nature of the Company's fleet. These "functional CGUs" provide a closer substitutability that is sought within the CGU definition and have resulted in more rig categories. The Company now considers the CGUs for its rig fleet to be structured as follows:

- Hydraulic Singles;
- Slant/Heavy Singles;
- Tele-Doubles;
- Heavy Triples;
- Light Capacity Pad Rigs;
- A.C. Tele-Double Pad Rigs;
- A.C. Oil Sands Pad Rigs;
- D.C. Pad Rigs;
- A.C. Deep Gas Pad Rigs; and
- A.C. Ultra-Deep Gas Pad Rigs.

Following its change in CGU classification noted above and in conjunction with continued market weakness, the Company recorded an additional asset impairment loss at December 31, 2015. With respect to this second asset impairment loss, management used its approved 2016 budget and business plan inputs as well as subsequent internal forecasts as its primary bases for asset impairment testing. Cash flows were determined for each of the Company's ten revised CGUs as described above. While these CGUs continue to encompass 98% of the Company's property, plant and equipment, consideration was again given to other corporate assets in the Company's impairment tests.

Additional significant assumptions used in AKITA's asset impairment tests at December 31, 2015 remained consistent with the additional significant assumptions used at September 30, 2015. The generation of cash flows was considered for the Company's CGUs based on the existing condition of each CGU at December 31, 2015.

As a result of performing its asset impairment tests, the Company recorded an overall asset impairment of $8,200,000 with respect to certain of its conventional rigs at September 30, 2015. This amount represented the difference between the respective CGUs' recoverable amounts and their carrying values. For assets within CGUs that were determined to be impaired, 81% of the recoverable amounts were calculated based on "value in use" with the balance based on "fair value less cost of disposal". The Company did not record any asset impairment with respect to AKITA's pad rigs at September 30, 2015.

As a result of performing its asset impairment tests at December 31, 2015, the Company recorded an additional asset impairment of $33,768,000 with respect to three of its conventional rigs as well as nine of its pad rigs. Consistent with the asset impairment loss reported at September 30, 2015, this amount represented the difference between the respective CGUs' recoverable amounts and their carrying values. At December 31, 2015, for assets within CGUs that were determined to be impaired, 77% of the recoverable amounts were calculated based on "value in use" with the balance based on "fair value less cost of disposal".

The Company determined fair value less cost of disposal to be based on external appraisals of select rig assets as of September 30, 2015 and December 31, 2015.

Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions will not be realized. As a result, the following sensitivity analysis has been performed to recognize that additional outcomes are possible:

- Decreased future cash flows from the Company's preliminary (September 30, 2015) or approved (December 31, 2015) 2016 budget by 10%;
- Reduced future revenue assumptions by 2%;
- Increased inflation for cash outflows from 2% to 4%;
- Increased the 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 various rig CGUs' values in use ranging from $81,000 to $11,546,000. As the base case test represented management's best estimates, these sensitivity reductions were not included in the asset impairment reported.

Equity Income from Joint Ventures

$Millions	2015	2014	Change	% Change
Proportionate share of revenue from joint ventures (1)	32.5	64.1	(31.6)	(49%)
Proportionate share of operating and maintenance expenses from joint ventures (1)	20.8	40.3	(19.5)	(48%)
Proportionate share of selling and administrative expenses from joint ventures (1)	0.4	0.8	(0.4)	(50%)
Equity income from joint ventures	11.3	23.0	(11.7)	(51%)

(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 it does 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 (Loss)

$Millions	2015	2014	Change	% Change
Total other income (loss)	(0.4)	0.8	(1.2)	(150%)

Interest income decreased to $130,000 in 2015 from $172,000 in 2014 as a result of reduced interest rates. In addition, between 2011 and 2014, the Company had undertaken significant capital expenditures related to the construction of new rigs and the conversion of conventional rigs into pad rigs, thereby reducing AKITA's cash balances over time.

During 2015, the Company recorded interest expense of $356,000 (2014 – $262,000) 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 of 2014 and the first six months of 2015.

During 2015, the Company disposed of selected non-core assets resulting in a $657,000 loss. AKITA disposed of several non-core assets in 2014, resulting in a $536,000 gain.

In 2015, amounts reported as "Net Other Gains" of $462,000 include foreign exchange amounts related to forward exchange contracts purchased in 2014 to provide a hedge for foreign rig equipment commitments made at that time related to rig construction (gain of $267,000) and other items (gain of $195,000).

Other than the foreign currency hedge on major capital expenditures noted above, readers should be aware that in 2015 the Company conducted all of its operations in Canada, thereby reducing its exposure to foreign currency fluctuations.

Income Tax Expense (Recovery)

$Millions, except income tax rate (%)	2015	2014	Change	% Change
Current tax (recovery)	(2.7)	2.6	(5.3)	(203%)
Deferred tax (recovery)	(7.9)	4.4	(12.3)	(280%)
Total income tax expense (recovery)	(10.6)	7.0	(17.6)	(251%)
Effective income tax rate	23.7%	25.0%		

AKITA had an income tax recovery of $10,579,000 in 2015 compared to a tax expense of $7,042,000 in 2014 mainly due to recording a pre-tax loss as a result of weaker operations and the effect of recording asset impairment losses. In addition to the effect of the pre-tax loss, during 2015, the Company recorded a one-time deferred tax expense of $1,191,000 related to the corporate income tax increase implemented by the Government of Alberta. Recent capital additions have also affected the portion of income taxes that are deferred to future dates.

Net Income (Loss), Funds Flow and Net Cash from Operating Activities

$Millions	2015	2014	Change	% Change
Net income (loss)	(34.0)	21.1	(55.1)	(261%)
Funds flow from operations (1)	38.5	56.2	(17.7)	(31%)

(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 2015, the Company reported a net loss of $33,965,000 (net loss of $1.89 per Class A Non-Voting and Class B Common Share (basic and diluted)) compared to net income of $21,079,000 or $1.17 per share (basic and diluted) in 2014. Funds flow from operations decreased to $38,510,000 in 2015 from $56,195,000 in 2014.

During the third and fourth quarters of 2015, the Company recorded asset impairment expenses totalling $41,968,000 (after tax effect of $30,748,000) in addition to an annual net loss of $3,217,000 as a result of routine operations. The net loss reported in 2015 compared to the net income reported in 2014 was also attributable to reductions in drilling activity as well as increased depreciation expense. Funds flow from operations decreased to $38,510,000 during 2015 from $56,195,000 in 2014. Funds flow was negatively affected by weaker drilling activity in 2015 but was not affected by the asset impairment expense, increased depreciation expense or deferred taxes recovered as these are non-cash items.

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

$Millions	2015	2014	Change	% Change
Funds flow from operations (1)	**38.5**	56.2	(17.7)	(31%)
Change in non-cash working capital	**14.6**	8.0	6.6	82%
Equity income from joint ventures	**(11.3)**	(23.0)	11.7	51%
Current income tax expense (recovery)	**(2.7)**	2.7	(5.4)	(200%)
Income tax (paid) recoverable	**2.7**	(3.1)	5.8	187%
Interest paid and other	**(0.3)**	(0.2)	(0.1)	(50%)
Net cash from operating activities	**41.5**	40.6	0.9	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".

Subsequent Event

A significant proportion of the Company's business is conducted under contracts that range in duration from several months to one or more years. On occasion, events occur that result in either extensions to, or early terminations of, contracted rigs. Subsequent to December 31, 2015, one of AKITA's major customers elected to early terminate a multi-year contract that was scheduled to continue until 2019. As a result of the early termination, AKITA is scheduled to receive $29,542,000 (undiscounted) in cancellation fees.

Fleet and Utilization

The following table summarizes rig changes that occurred in 2015:

Fleet Changes during 2015

	Gross	Net
Number of rigs at December 31, 2014	35	31.725
Completion of construction of a deep pad rig	1	1.000
Decommissioning of five rigs during the year	(5)	(4.500)
Number of rigs at December 31, 2015	31	28.225

Utilization rates are a key statistic for the drilling industry since they measure revenue volume and influence pricing. During 2015, AKITA achieved 3,941 operating days, which corresponded to a utilization rate of 30.9% compared to an industry average utilization rate of 23.2% during the same period. During the comparative year in 2014, AKITA achieved 6,520 operating days, representing 48.6% 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 typically 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. This seasonal pattern has been muted in 2015 and in 2016, to date, as a result of unusually weak oil and gas drilling conditions.

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 (typically referred to as a "pad"). 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, 2015

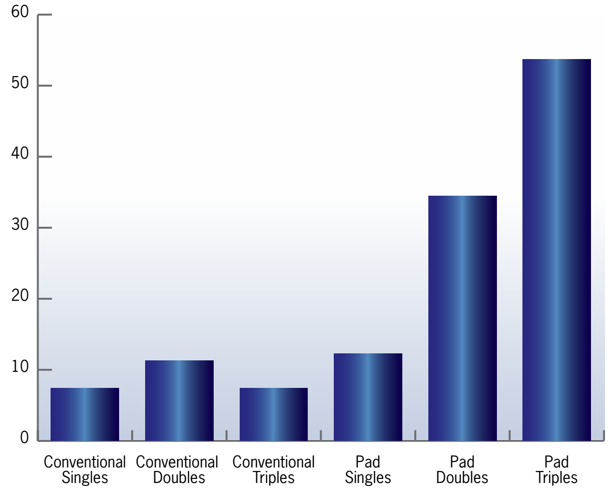
	Conventional Rigs		Pad Rigs	
	Number of Rigs	Percentage of Fleet	Number of Rigs	Percentage of Fleet
Singles	3	10%	0	0%
Doubles	4	13%	5	16%
Triples	4	13%	15	48%
Total	11	36%	20	64%

During 2015, AKITA commissioned one new pad triple rig and decommissioned four conventional single rigs as well as one conventional double rig.

From time to time, the Company enters into drilling contracts for extended terms. At December 31, 2015, AKITA had three rigs with multi-year contracts that extend beyond one year. Of these contracts, one is anticipated to expire in 2016 and a second in 2018. The third contract was cancelled in January, 2016, as described in this document under the heading "Subsequent Event" on page 15.

AKITA's competitive position is affected by the overall size of the Canadian drilling fleet and the level of customer demand. At December 31, 2015 there were 765 drilling rigs registered with the Canadian Association of Oilwell Drilling Contractors (CAODC) (December 31, 2014 – 806). AKITA's drilling fleet of 31 rigs represented 4.1% of the total Canadian drilling fleet at December 31, 2015 (December 31, 2014 – 4.3%).

The following graph illustrates AKITA's 2015 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.

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
2015					
Revenue	**46,715**	**22,536**	**22,021**	**21,216**	**112,488**
Net income (loss)	**4,218**	**(1,620)**	**(7,581)**	**(28,982)**	**(33,965)**
Earnings (loss) per share (basic and diluted) ($)	**0.23**	**(0.09)**	**(0.42)**	**(1.61)**	**(1.89)**
Funds flow from operations (1)	**14,059**	**9,072**	**8,225**	**7,154**	**38,510**
Cash flow from operations	**6,015**	**25,011**	**6,325**	**4,156**	**41,507**
2014					
Revenue	54,342	28,365	36,556	46,011	165,274
Net income	10,150	2,081	3,854	4,994	21,079
Earnings per share (basic and diluted) ($)	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

(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".

Key trends over past 12 quarters, after giving consideration to the seasonal nature of AKITA's operations, are as follows:

- Activity levels, which are directly correlated to revenue, net income and funds flow from operations (1) generally increased through 2013 and most of 2014 as a result of strong market conditions. By the first quarter of 2015, this trend reversed as market conditions weakened substantially. The weaker market persisted throughout 2015;
- Operating Margin(2) per operating day which influences both net income and funds flow from operations(1) had been generally decreasing during the 2013 and 2014 due to a change in classes of rigs worked. During 2015, weak market conditions resulted in a general decline for operating margins per operating day. This decline in operating margins on a per day basis was mostly offset by changes in rig classes worked; and
- Net cash from operating activities is not directly correlated to market strength on a quarterly basis. Changes in the balance of this account are also tied to the timing of changes in various non-cash working capital accounts.

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

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

During the fourth quarter of 2015, rig activity for the Company included 656 operating days compared to 1,669 operating days during the corresponding period in 2014. The decrease in operating days compared to the corresponding quarter in 2014 was due to lower activity for both conventional and pad rigs, although on a proportionate basis, conventional rigs were affected more severely. The lower operating day activity in the fourth quarter of 2015 compared to the corresponding period in 2014 resulted in lower financial statement revenue of $21,216,000 (equivalent to $26,888,000 on an adjusted basis) when compared to fourth quarter 2014 financial statement revenue of $46,011,000 (equivalent to $62,211,000 on an adjusted basis). While fourth quarter 2015 revenue and adjusted revenue were lower than for the corresponding period in 2014, adjusted revenue per operating day of $40,988 was 10% higher than adjusted revenue per day of $37,274 per operating day in the fourth quarter of 2014, largely as a result of a change in rig mix. Operating and maintenance costs, which are also tied to activity levels, decreased during the fourth quarter of 2015 to $18,457,000 on an adjusted basis from $43,539,000 on an adjusted basis during the corresponding quarter of 2014 as a result of lower rig activity in the fourth quarter of 2015. However, a change in rig mix that included a higher proportion of pad rigs working resulted in operating and maintenance costs per operating day increasing to $28,136 in the fourth quarter of 2015 from $26,087 in the fourth quarter of 2014. The operating margin during the fourth quarter of 2015 was $8,431,000 or $12,852 per operating day on an adjusted basis compared to $18,672,000 or $11,188 per operating day on an adjusted basis during the fourth quarter of 2014. Lower activity levels resulted in lower overall operating margins, while the change in rig mix that included a higher percentage of pad rigs resulted in a higher operating margin per operating day.

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.

AKITA reported a net loss of $28,982,000 (net loss of $1.63 per Class A Non-Voting and Class B Common Share (basic and diluted)) for the fourth quarter of 2015 from net income of $4,994,000 or $0.27 earnings per share (basic and diluted) in the fourth quarter of 2014. Funds flow from operations decreased to $7,154,000 in the fourth quarter of 2015 from $16,979,000 in the corresponding quarter in 2014. The fourth quarter of 2015 included an asset impairment loss of $33,768,000 in addition to a net loss of $6,435,000 as a result

"To be courageous means to be afraid but to go a little step forward anyway."

- R.D. Southern

of routine operations. When compared to the net income reported in the fourth quarter of 2014, the net loss reported in the fourth quarter of 2015 was also attributable to reductions in drilling activity and increased depreciation expense. Funds flow from operations was negatively affected by weaker drilling activity in the fourth quarter of 2015 but was not affected by the asset impairment expense, increased depreciation expense or by changes in deferred taxes as these are non-cash items.

At December 31, 2015, AKITA had $16,002,000 in working capital (working capital ratio of 2.45:1 including $9,369,000 in cash compared to a working capital deficiency of $5,028,000 (working capital ratio of 0.90:1) and $2,012,000 cash for the previous year.

Three Year Annual Financial Summary

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

Three Year Summary

($Thousands, except per share) (Unaudited)	2015	2014	2013
Revenue	112,488	165,274	168,111
Net income (loss)	(33,965)	21,079	26,515
Basic earnings (loss) per share ($)	(1.89)	1.17	1.48
Diluted earnings (loss) per share ($)	(1.89)	1.17	1.47
Dividends per Class A Non-Voting and Class B Common share ($)	0.34	0.34	0.32
Funds flow from operations (1)	38,510	56,195	57,619
Net cash from operating activities	41,507	40,622	39,554
Year-end working capital (deficiency)	16,002	(5,028)	40,645
Year-end other long-term liabilities	23,285	30,796	25,400
Year-end shareholders' equity	220,200	259,841	245,288
Year-end total assets	254,516	340,926	291,748

(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, 2015, AKITA had $16,002,000 in working capital including $9,369,000 in cash and no bank indebtedness, compared to a working capital deficiency of $5,028,000, including $2,012,000 in cash and $20,000,000 of bank indebtedness at December 31, 2014. In 2015, AKITA generated $41,507,000 from operating activities. Cash was also generated from joint venture distributions ($13,537,000), from reductions in cash balances restricted for loan guarantees ($3,403,000) and from proceeds on sales of assets ($1,093,000). During the same period, cash was used for capital expenditures ($26,082,000)(Note), the repayment of the loan operating facility ($20,000,000) and payment of dividends ($6,101,000) (Note).

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 2020. 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 did not have any borrowings from this facility at December 31, 2015 (December 31, 2014 – borrowings of $20,000,000).

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;
- EBITDA to interest expense shall not be less than 3.00 to 1; and
- Tangible assets to funded debt shall not be less than 2.25 to 1.

Readers should be aware that each of funded debt, EBITDA, interest expense and tangible assets have specifically set out definitions 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, 2015, the Company did not have any forward currency contracts (December 31, 2014 - US$2.5 Million).

The Company did not have an outstanding normal course issuer bid during 2015. 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.

In 2014, AKITA entered into a new lease for its head office. In 2016, the annual cost for this lease is $858,000. 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	**3,344**	858	1,648	838	Nil
Purchase obligations	**975**	325	650	Nil	Nil
Capital expenditure commitments	**1,000**	1,000	Nil	Nil	Nil
Pension obligations	**3,794**	Note	Note	Note	Note
Total contractual obligations	**9,113**	2,183	2,208	838	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost for year one ranges from $60,000 to $113,000, from year one to three ranges from $90,000 to $173,000 annually, and from year four to five ranges from $90,000 to $307,000 annually, with the balance being due after five years in any event.

Property, Plant and Equipment

Capital expenditures totalled $17,960,000 in 2015. The most significant expenditure related to the completion of construction of an AC deep gas pad rig.

The cost incurred during 2015 for the aforementioned rig construction project was $9,727,000. Additional capital expenditures related to certifications and overhauls having a life in excess of one year ($3,878,000), rig equipment for existing rigs ($2,544,000), drill pipe and drill collars ($1,490,000) and other equipment ($321,000). Capital expenditures for 2014 totalled $103,949,000.

During 2015, the Company sold ancillary assets for $1,093,000 that resulted in a loss of $657,000. During 2014, AKITA disposed of one of its underutilized pad rigs. Proceeds from sales of underutilized and non-core assets totalled $8,315,000 in 2014 and resulted in a gain of $536,000.

Financial Instruments

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

The Company is exposed to changes in foreign exchange rates as the cost of capital expenditures or financial instruments priced in foreign currency may fluctuate due to changing rates. To mitigate this risk, from time to time, the Company enters into foreign exchange forward contracts. The Company uses hedges only for the purpose of reducing foreign currency exposure and does not use hedges for speculative or other purposes. The Company did not have any forward exchange contracts in place at December 31, 2015 (December 31, 2014 - US$2.5 Million).

Despite the effect 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 requires customers to make advance payment prior to provision of services or takes 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 2015 and 2014 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Operating purchases totalled $698,000 and included sponsorship and advertising ($325,000) and other miscellaneous purchases ($373,000). During 2015, the Company renewed its multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2015, the remaining commitment was $975,000. Costs incurred related to this contract during 2015 were $325,000 (2014 - $325,000). Costs and related services are consistent with parties dealing at arm's length.

The Company incurred legal fees of $59,000 (December 31, 2014 - $74,000) 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, 2015. At December 31, 2015, $1,000 (December 31, 2014 - $2,000) 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 its 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	2015	2014
Revenue	30	33
Operating and maintenance costs	4,866	9,438
Selling and administrative costs	553	1,066
Year-end accounts payable	1,872	4,626

Class A and Class B Share Dividends

Per Share	2015	2014	Change	% Change
Dividends per share ($)	0.34	0.34	0.00	0%

During 2015, AKITA declared dividends totalling $6,101,000 ($0.34 per share) on its Class A Non-Voting Shares and Class B Common Shares, compared to $6,103,000 ($0.34 per share) for 2014. 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 3, 2016 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, 2014	16,319,377	22,542	1,653,784	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	17,945,661	23,871
December 31, 2015	16,291,877	22,505	1,653,784	1,366	17,945,661	23,871
Exercisable options at Dec. 31, 2015	459,500					
Unexercisable options at Dec. 31, 2015	222,500					

At March 3, 2016, 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 682,000 stock options outstanding, of which 459,500 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. In certain instances in which rigs are inactive for extended periods, however, 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 lesser of 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 rates and the recoverable amount. The carrying amount of the asset is reduced by this amount. Please refer to the section "Asset Impairment Loss" on pages 11 to 13 for further details on the Company's asset impairment loss at December 31, 2015.

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 $3,794,000 at December 31, 2015 (2014 - $3,426,000). 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 2015, a key assumption relates to the use of a 3.9% discount rate (2014 – 3.8%). 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, 2015, AKITA provided $5,978,000 in deposits with its bank for those purposes (December 31, 2014 - $9,381,000). 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 suitability and 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, quality assurance and quality control programs and operating procedures. Customer relations is an important aspect to a 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 previous 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. However, during 2015, the Company repaid its entire bank borrowings and did not have any financial leverage at December 31, 2015.

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 and motivated to comply with the highest safety standards. AKITA uses a comprehensive set of training programs to help to achieve this result.

Dependence on Major Customers

In 2015 AKITA earned 34.4% of total adjusted revenue from three major customers. These were the only customers who individually provided over 10% of the Company's adjusted revenue for the 2015 fiscal year although the Company also received over 10% of its unadjusted revenue from one additional customer. 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.

Typically, 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. Unseasonably warm weather which could limit access to drilling sites 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 use of energy generated from sources that are not crude oil or natural gas based; 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. Current global economic events and uncertainty have significantly affected, and may continue to significantly affect, commodity pricing. Any prolonged substantial reduction in crude oil and natural gas prices would likely continue to affect oil and gas production levels and therefore adversely 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 further 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 of Directors 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 frequently tied to long-term contracts to minimize the risk of capital not being recovered on a timely basis.

Drilling Rig Technology

Complex drilling programs for the exploration and development of 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 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 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. Further, there is a significant lag between the time when a decision to build a rig is made and when construction is complete. These two factors contribute to the supply of rigs in the industry not always aligning with the demand for drilling rigs. High demand typically spurs greater capital expenditures by drilling contractors which may, in turn, lead to excessive supply 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.

Access to Additional Financing

AKITA may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, undertake capital expenditures or undertake acquisitions or other business combination activities. There can be no guarantee that AKITA will have access to the required capital as AKITA's ability to do so is dependant on, among other factors, the overall state of capital markets, interest rates, the state of the oil and gas industry, as well as the appetite for the investment in the oilfield drilling industry. An inability to obtain necessary financing on terms that are acceptable to AKITA could limit AKITA's growth and could have a material adverse effect on AKITA's business, financial conditions and future cash flows.

Environmental 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 either increased operating costs, 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.

Key Management

The success and growth of AKITA are dependant upon AKITA's key management personnel. The loss of services of any such persons without suitable replacements could have a material adverse effect on the business and operations of the Company. No assurance can be provided that AKITA will be able to retain key management members in the absence of suitable replacements.

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 its 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;
- continuously developing 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;
- continually 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.

Commodity prices for crude oil and natural gas have been low for an extended period and continue to remain weak. For context, prices for crude oil as measured using the West Texas Intermediate benchmark, were on average 48% lower through 2015 compared to 2014. Natural gas prices, as measured using the NGX Alberta Market Price, were on average 38% lower in 2015 than the previous year. Uncertainty persists regarding any commodity price improvements as well as the extent of access for oil and gas producers to non-operational sources of financing. If producers lose significant access to capital, further capital spending cuts may result. These cuts would be in addition to capital spending reductions that have already been announced by many oil and gas producers in Western Canada.

Management anticipates that the foregoing backdrop will continue to result in reduced drilling activity levels for the near term. Moreover, day rates that were achievable even a few months ago are not expected to be attainable until market conditions improve. Although the effects of this weak market are ubiquitous, the shift in recent years to more specialized drilling requirements should allow AKITA's highest specification rigs to remain the most active. In virtually all cases, this refers to select recently constructed pad rigs.

AKITA has a number of key strengths that will help ensure the Company is able to weather the current market weakness in the drilling cycle. These strengths include:

- having an experienced Board of Directors and management team that have endured through numerous previous down cycles including, in certain instances, experience that dates back to the early and mid 1980's very difficult cycles.
- ensuring that the Company has a significant level of financial strength. At December 31, 2015, AKITA had $16,102,000 in working capital including a significant cash balance and no long-term debt or bank borrowings. Further, the Company has access to a $100,000,000 bank facility if required including in the event that an opportunity is identified that will provide for growth;
- scaling the operational aspects of the Company to meet current market realities;
- operating a first class and diverse fleet of rigs with experienced and skilled crews;

"Never ever be afraid of losing ... if you know you gave every effort, every fibre of your being to trying to succeed."

- R.D. Southern

- maintaining strong customer relationships with a core group of customers that are capable of operating in all portions of the business cycle; and
- reducing the scope of routine capital expenditures until there are signs of better opportunities.

Disclosure Controls and Internal Controls Over Financial Reporting

As of December 31, 2015, 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, 2015.

As of December 31, 2015, 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, 2015.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on October 1, 2015 and ended December 31, 2015 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, 2015.

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; global LNG demand; 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 anticipates may have a material effect on the consolidated financial statements or note disclosures are described below. The Company is currently evaluating the impact of these new standards on its financial statements.

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, 2018 and shall be applied retrospectively.

IFRS 9, "Financial Instruments", 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.

IFRS 16, "Leases" replaces the previous guidance on leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The new standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively.

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 3, 2016. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2015 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 1000, 311 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 or at www.sedar.com.

AKITA DRILLING LTD.

Relentlessly Pursuing Excellence

We're committed to excellence in all that we do – whether on the job, in the boardroom or in the community. Our path to success is rooted in the relationships we build with all of our stakeholders, from the customers and shareholders we serve to the 600+ individuals we employ.

AKITA Rig 22 drilling at Grande Prairie, Alberta

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to AKITA contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and are in conformity with International Financial Reporting Standards (also referred to as "IFRS") using methods appropriate for the industry in which the Company operates. Where necessary, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements including estimates related to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined benefit pension liability, assumptions around future income tax calculations and the measurement of asset impairment losses. 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 33.

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 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, 2015 and December 31, 2014 and the consolidated statements of net income (loss) and comprehensive income (loss), 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, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta
March 3, 2016

Consolidated Statements of Financial Position

$Thousands		December 31, 2015	December 31, 2014
Assets			
Current Assets			
Cash		$ 9,369	$ 2,012
Accounts receivable	Note 6	14,310	39,981
Income taxes recoverable		3,279	3,011
Prepaid expenses and other		75	257
		27,033	45,261
Non-current Assets			
Restricted cash	Note 7	5,978	9,381
Other long-term assets		917	1,025
Investments in joint ventures	Note 8	3,941	6,214
Property, plant and equipment	Note 9	216,647	279,045
Total Assets		$ 254,516	$ 340,926
Liabilities			
Current Liabilities			
Operating loan facility	Note 6	$ -	$ 20,000
Accounts payable and accrued liabilities	Note 10	9,506	28,589
Deferred revenue		-	175
Dividends payable	Note 11	1,525	1,525
		11,031	50,289
Non-current Liabilities			
Financial instruments	Note 6	117	226
Deferred income taxes	Note 12	19,203	27,053
Deferred share units	Note 13	171	91
Pension liability	Note 14	3,794	3,426
Total Liabilities		34,316	81,085
Shareholders' Equity			
Class A and Class B shares	Note 15	23,871	23,871
Contributed surplus		3,946	3,557
Accumulated other comprehensive loss		(244)	(280)
Retained earnings		192,627	232,693
Total Equity		220,200	259,841
Total Liabilities and Equity		$ 254,516	$ 340,926

Approved by the Board,

Director

Director

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

$Thousands except per share amounts		Year Ended December 31 2015	2014
Revenue		$ 112,488	$ 165,274
Costs and expenses			
Operating and maintenance	Note 16	74,031	112,590
Depreciation and amortization	Note 9	36,748	30,200
Asset impairment loss	Note 4	41,968	-
Selling and administrative	Note 16	15,128	18,136
Total costs and expenses		167,875	160,926
Revenue less costs and expenses		(55,387)	4,348
Equity income from joint ventures	Note 8	11,264	22,996
Other income (loss)			
Interest income		130	172
Interest expense		(356)	(262)
Gain (loss) on sale of assets		(657)	536
Net other gains		462	331
Total other income (loss)		(421)	777
Income (loss) before income taxes		(44,544)	28,121
Income taxes (recovery)	Note 12	(10,579)	7,042
Net income (loss) for the year attributable to shareholders		(33,965)	21,079
Other comprehensive income (loss)		36	(368)
Comprehensive income (loss) for the year attributable to shareholders		$ (33,929)	$ 20,711

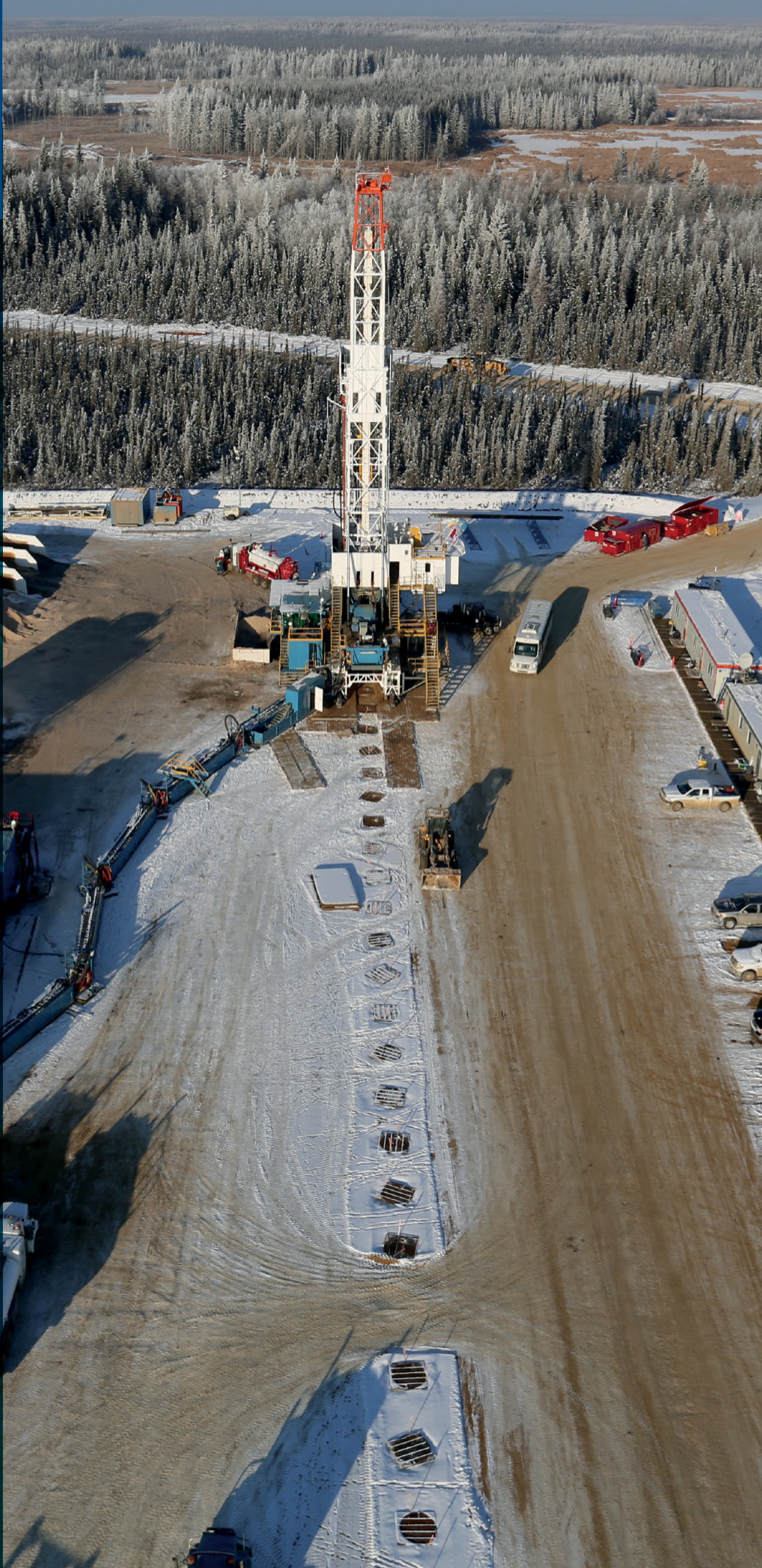
Net income (loss) per Class A and Class B Share	Note 17		
Basic		$ (1.89)	$ 1.17
Diluted		$ (1.89)	$ 1.17

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 (Loss)	Retained Earnings	Total Equity
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	$259,841
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**(33,965)**	**(33,965)**
Remeasurement of pension liability	**-**	**-**	**-**	**-**	**36**	**-**	**36**
Stock options charged to expense	**-**	**-**	**-**	**389**	**-**	**-**	**389**
Dividends	**-**	**-**	**-**	**-**	**-**	**(6,101)**	**(6,101)**
Balance at December 31, 2015	**$ 22,505**	**$ 1,366**	**$ 23,871**	**$ 3,946**	**$ (244)**	**$192,627**	**$220,200**

Consolidated Statements of Cash Flows

$Thousands		Year Ended December 31 2015	2014
Operating Activities			
Net income (loss)		$ (33,965)	$ 21,079
Non-cash items included in net income:			
Depreciation and amortization	Note 9	36,748	30,200
Asset impairment loss	Note 4	41,968	-
Deferred income taxes (recovery)	Note 12	(7,863)	4,315
Defined benefit pension plan expense	Note 14	492	392
Stock options and deferred share units expense	Note 13	509	463
(Gain) loss on sale of assets		657	(536)
Unrealized foreign currency loss		73	162
Unrealized (gain) loss on financial guarantee contracts		(109)	120
Funds flow from operations		38,510	56,195
Change in non-cash working capital	Note 21	14,591	7,990
Equity income from joint ventures	Note 8	(11,264)	(22,996)
Post-employment benefits		(115)	(15)
Interest paid		(215)	(130)
Income tax expense (recovery) - current	Note 12	(2,717)	2,602
Income tax paid (recoverable)		2,717	(3,024)
Net cash from operating activities		41,507	40,622
Investing Activities			
Capital expenditures	Note 9	(17,960)	(103,949)
Change in non-cash working capital	Note 21	(8,122)	1,087
Distributions from investments in joint ventures	Note 8	13,537	26,874
Change in cash restricted for loan guarantees		3,403	(3,431)
Change in term deposits		-	5,000
Proceeds on sale of assets		1,093	8,316
Net cash used in investing activities		(8,049)	(66,103)
Financing Activities			
Change in operating loan facility		(20,000)	20,000
Dividends paid		(6,101)	(6,015)
Repurchase of share capital	Note 15	-	(390)
Loan commitment fee paid		-	(100)
Net cash from (used in) financing activities		(26,101)	13,495
Increase (decrease) in cash		7,357	(11,986)
Cash, beginning of year		2,012	13,998
Cash, End of Year		$ 9,369	$ 2,012



Responsible to Our Shareholders

Our shareholders are fundamental to our ongoing success as a premier quality drilling company.

Our commitment to you is to:

- Ensure AKITA is governed using a first-class governance structure;
- Be disciplined in our finances, with limited use of leverage to acknowledge the cyclicality of the industry in which we operate;
- Develop and maintain a modern, efficient rig fleet;
- Ensure an ongoing stream of dividend payments that are both consistent and increasing over the long-term whenever possible.

AKITA Rig 56 drilling at Peace River, Alberta

Notes to the Consolidated Financial Statements - Index

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company" or "AKITA") provide contract drilling services, primarily to the oil and gas industry. From time to time, the Company is involved in other forms of drilling including potash mining and the development of storage caverns. The Company owns and operates 31 drilling rigs (28.225 net) in Canada.

The Company conducts certain rig operations via joint ventures with Aboriginal and First Nations 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 typically 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, 2015 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 3, 2016, the date that the Company's Board of Directors approved the 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.

"A Dream is never just a Dream.

It's the wish to change your world.

A Dream shapes reality to suit your wishes, and transfers your tastes, ideas, and the things you love to the world around you.

That's how to change the world.

It takes Spirit - Energy - and Commitment.

It takes Passion - Joy - and Happiness.

It takes Vision - Imagination - and Belief.

It takes "Excellence" to make Dreams a Reality."

- R.D. Southern

Consolidation

The financial statements of the Company consolidate the accounts of AKITA 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 that joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in that joint venture), the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Unrealized gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in its joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of 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 which 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 classified 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 12 months, otherwise, they are classified as non-current liabilities.

The Company's financial liabilities at fair value through profit or loss are comprised of its 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.

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 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 three years.

Drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 20% 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

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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows into Cash Generating Units (CGUs). The CGUs for the Company's drilling rigs are:

- Hydraulic Singles;
- Slant/Heavy Singles;
- Tele-Doubles;

- Heavy Triples;
- Light Capacity Pad Rigs;
- A.C. Tele-Double Pad Rigs;
- A.C. Oil Sands Pad Rigs;
- D.C. Pad Rigs;
- A.C. Deep Gas Pad Rigs; and
- A.C. Ultra-Deep Gas Pad Rigs.

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 CGUs.

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 income taxes. Income taxes are recognized in the Statement of Net Income and Comprehensive Income except to the extent that they relate to items recognized directly in equity in which case the income taxes are 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 income 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 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 the employee 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 Class A Non-Voting and Class B Common shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of Class A Non-Voting and Class B Common shares outstanding to assume conversion of all dilutive potential Class A Non-Voting 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 Non-Voting 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.

Share-based Compensation Plans

The Company has three share-based compensation plans. Stock options qualify as an equity settled share-based payment plan while deferred share units ("DSUs") and share appreciation rights ("SARs") qualify as cash settled share-based payment plans. For all three of the share-based compensation plans, associated services received are measured at fair value and are calculated by multiplying the number of options, units or SARs expected to vest with the fair value of one option, unit 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 share-based long-term incentive compensation plan for certain employees. Each DSU granted 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 to the extent that the anticipated payment date will exceed 12 months from the measurement date.

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 plans 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.

4. 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

International Accounting Standard 36, "Impairment of Assets", requires an entity to consider both internal and external factors when assessing whether there are indications of asset impairment at each reporting period. While the Company did not determine any internal indicators of impairment at December 31, 2014, it did determine two potential external indicators of impairment at that date: a significant decline in the price of crude oil; and the carrying amount of AKITA's net assets exceeding the Company's market capitalization. Both of these indicators continued to remain applicable throughout 2015. The price of crude oil declined throughout most of 2015, resulting in further deterioration in the overall Canadian drilling market compared to 2014. In addition, management determined that, as a result of this additional weakening of crude oil prices, secondary opportunities to capture value for AKITA's drilling fleet had also become more limited, especially during the last six months of 2015.

The accuracy of asset impairment testing is affected by estimates and judgments in respect of the inputs and parameters that are used to determine recoverable amounts. In performing its impairment tests during 2015 including at December 31, 2015, management determined value in use for each of 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 recoverable amount and salvage value of each CGU. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value.

AKITA recorded the first asset impairment loss in its history at September 30, 2015. With respect to the asset impairment loss recorded at that date, management used its preliminary 2016 budget and business plan inputs as well as subsequent internal forecasts as its primary bases for asset impairment testing. Cash flows were determined for each of the Company's five CGUs: conventional singles, conventional doubles, conventional triples, pad doubles and pad triples. While these five operating CGUs encompass 98% of the Company's property, plant and equipment, consideration was also given to other corporate assets in the Company's asset impairment tests.

Additional significant assumptions used in AKITA's asset impairment tests at September 30, 2015 included potential annual revenue growth rates (0%), potential inflation for cash outflows necessary to generate cash inflows for CGUs (2%), the projected forecast period (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 (8%) and salvage value at the end of each CGU's useful life (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 September 30, 2015.

During the fourth quarter of 2015, management determined that the previous CGU classification did not adequately address the competitive role of each rig within a rig category or between rig categories given the current economic conditions. Consequently, the Company established new CGU breakdowns that more clearly categorizes AKITA's rigs according to the functional, rather than structural nature of the Company's fleet. These "functional CGUs" provide a closer substitutability that is sought within the CGU definition and have also resulted in more rig categories. The Company now considers the CGUs for its rig fleet to be structured as follows:

- Hydraulic Singles;
- Slant/Heavy Singles;
- Tele-Doubles;
- Heavy Triples;
- Light Capacity Pad Rigs;
- A.C. Tele-Double Pad Rigs;
- A.C. Oil Sands Pad Rigs;
- D.C. Pad Rigs;
- A.C. Deep Gas Pad Rigs; and
- A.C. Ultra-Deep Gas Pad Rigs.

Following its change in CGU classification noted above and in conjunction with continued market weakness, AKITA recorded an additional asset impairment loss at December 31, 2015. With respect to this second asset impairment loss, management used its approved 2016 budget and business plan inputs as well as subsequent internal forecasts as its primary bases for asset impairment testing. Cash flows were determined for each of the Company's ten revised CGUs as described above. While these CGUs continue to encompass 98% of the Company's property, plant and equipment, consideration was again given to other corporate assets in the Company's asset impairment tests.

Additional significant assumptions used in AKITA's asset impairment tests at December 31, 2015 remained consistent with the additional significant assumptions used at September 30, 2015. The generation of cash flows was considered for the Company's CGUs based on the existing condition of each CGU at December 31, 2015.

As a result of performing its asset impairment tests, the Company recorded an overall asset impairment of $8,200,000 with respect to certain of its conventional rigs at September 30, 2015. This amount represented the difference between the respective CGU's recoverable amounts and their carrying values. For assets within CGUs that were determined to be impaired, 81% of the recoverable amounts were calculated based on "value in use" with the balance based on "fair value less cost of disposal". The Company did not record any asset impairment loss with respect to AKITA's pad rigs at that time.

As a result of performing its asset impairment tests at December 31, 2015, the Company recorded an additional asset impairment loss of $33,768,000 with respect to three of its conventional rigs as well as nine of its pad rigs. Consistent with the asset impairment loss reported at September 30, 2015, this amount represented the difference between the respective CGUs' recoverable amounts and their carrying values. At December 31, 2015, for assets within CGUs that were determined to be impaired, 77% of the recoverable amounts were calculated based on "value in use" with the balance based on "fair value less cost of disposal".

The Company determined fair value less cost of disposal to be based on external appraisals of select rig assets as at September 30, 2015 and December 31, 2015.

The recoverable amounts for each of the Company's CGUs that were impaired at December 31, 2015 were as follows:

CGU	Recoverable Amount	Basis for Recoverable Amount
Slant/Heavy Singles	$ 3,919	Value in use
Tele-Doubles	17,140	Value in use
A.C. Deep Gas Pad Rigs	27,002	Value in use
A.C. Ultra Deep Gas Pad Rigs	31,710	Fair value less costs to dispose
D.C. Pad Rigs	35,389	Value in use
Heavy Triples	6,591	Value in use
Total	$ 121,751	

Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions will not be realized. As a result, the following sensitivity analysis has been performed to recognize that additional outcomes are possible:

- Decreased future cash flows from the Company's preliminary (September 30, 2015) or approved (December 31, 2015) 2016 budget by 10%;
- Reduced future revenue assumptions by 2%;
- Increased inflation for cash outflows from 2% to 4%;
- Increased the 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 various rig CGUs' values in use ranging from $81,000 to $11,546,000. As the base case test represented management's best estimates, these sensitivity reductions were not included in the asset impairment loss reported.

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, 2015, drilling rig depreciation could be either increased or decreased by $3,539,000 (2014 - $2,878,000). 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 $3,794,000 at December 31, 2015 (2014 - $3,426,000). 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 liability. 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 2015, a key assumption is the discount rate of 3.9% (2014 – 3.8%). 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 $463,000 decrease in the defined benefit obligation. Additionally, if members' lives should be one year longer than actuarial expectations, the defined benefit obligation would increase by $62,000.

Deferred Income Taxes

The Company makes assumptions relating to the measurement of 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.

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.

5. 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.

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 2020.

"Calm waters are never assured."

- R.D. Southern

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.

At December 31, 2015, the Company had repaid all funds drawn on its loan facility.

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

Contracts Measured at Fair Value

Forward exchange contracts

From time to time, the Company enters 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 does not designate 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 based on a valuation model that utilized direct observable market data.

The Company did not have any forward exchange contracts outstanding at December 31, 2015 (December 31, 2014 – US $2,500,000).

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 $117,000 (2014 - $226,000). 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, liquidity risk and commodity 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.

Credit Risk

The credit risk associated with accounts receivable is generally considered low since substantially all counterparties are well-financed and established 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, 2015 and December 31, 2014. Terms of the Company's contracts generally require payment within 30 days.

$Thousands	December 31 2015	December 31 2014
Within 30 days	$ 11,560	$ 34,642
31 to 60 days	2,411	1,803
61 - 90 days	402	2,408
Over 90 days	(13)	1,228
Allowance for doubtful accounts	(50)	(100)
Accounts receivable	14,310	39,981

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.

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2015 and December 31, 2014, 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, 2015 and December 31, 2014 are due within one year.

Commodity Risk

The Company is indirectly exposed to commodity risk relating to commodity prices due to the industry in which it works.

Significant Customers

During 2015, three customers (2014 – three 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 2015	December 31 2014
Balance held in bank liquid deposit instruments	$ 5,978	$ 9,381

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 $184,000 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 $1,475,000 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 $4,319,000 with respect to these loans.

From time to time, the restricted cash balance is reduced to reflect joint venture partner loan repayments.

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 or First Nations partners whereby rig assets are jointly owned. Currently, there are 22 different Aboriginal or First Nations 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 or First Nations 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, 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
Net income for the year ended December 31, 2015	**11,264**
Distributions for the year ended December 31, 2015	**(13,537)**
Balance as at December 31, 2015	**$ 3,941**

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

$Thousands	**AKITA % Dec. 31, 2015**	**JV Partner % Dec. 31, 2015**	**Total Dec. 31, 2015**	AKITA % Dec. 31, 2014	JV Partner % Dec. 31, 2014	Total Dec. 31, 2014
Cash	**$ 1,268**	**$ 406**	**$ 1,674**	$ 3,018	$ 1,111	$ 4,129
Other current assets	**5,447**	**1,117**	**6,564**	9,673	4,425	14,098
Non-current assets	**55**	**-**	**55**	55	-	55
Total Assets	**6,770**	**1,523**	**8,293**	12,746	5,536	18,282
Current liabilities	**2,829**	**598**	**3,427**	6,144	2,582	8,726
Non-current liabilities	**-**	**-**	**-**	388	69	457
Total Liabilities	**2,829**	**598**	**3,427**	6,532	2,651	9,183
Net Assets	**$ 3,941**	**$ 925**	**$ 4,866**	$ 6,214	$ 2,885	$ 9,099
Revenue	**$ 32,463**	**$ 10,157**	**$ 42,620**	$ 64,090	$ 25,203	$ 89,293
Net income and comprehensive income	**$ 11,264**	**$ 3,242**	**$ 14,506**	$ 22,996	$ 7,473	$ 30,469

9. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Additions	-	17,701	259	17,960
Disposals	-	(10,001)	(882)	(10,883)
Impairment loss	-	(59,795)	-	(59,795)
Balance as at December 31, 2015	**$ 4,302**	**$ 406,062**	**$ 8,314**	**$ 418,678**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Disposals	-	(8,250)	(882)	(9,132)
Depreciation expense	82	35,389	1,168	36,639
Impairment loss	-	(17,827)	-	(17,827)
Balance as at December 31, 2015	**$ 1,273**	**$ 194,446**	**$ 6,312**	**$ 202,031**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
As at December 31, 2015	**$ 3,029**	**$ 211,616**	**$ 2,002**	**$ 216,647**

At December 31, 2015, the Company had $106,000 in Property, Plant and Equipment that was not being depreciated, as these assets were under construction (December 31, 2014 – $16,094,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $108,000 for the year ended December 31, 2015 (2014- $92,000).

The Company recorded an asset impairment loss of $41,968,000 (Note 4) with respect to certain of its rigs.

10. Accounts Payable and Accrued Liabilities

$Thousands	December 31 2015	December 31 2014
Trade payables	$ 3,213	$ 11,244
Statutory liabilities	5,982	13,747
Accrued expenses	211	3,598
Post employment benefits	100	-
	$ 9,506	$ 28,589

11. 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, 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
March, 2015	April, 2015	0.085	1,525
May, 2015	July, 2015	0.085	1,525
July, 2015	October, 2015	0.085	1,525
November, 2015	January, 2016	0.085	1,525

12. Income Taxes

Income tax expense is comprised of the following:

	Year Ended	
$Thousands	December 31 2015	December 31 2014
Current tax expense (recovery)	$ (2,716)	$ 2,602
Deferred tax expense (recovery)	(7,863)	4,440
Total income taxes	$ (10,579)	$ 7,042

The following table reconciles the income tax expense using a weighted average Canadian federal and provincial rate of 26.14% (2014 – 25.39%) to the reported tax expense. The rate increase is due to the Alberta provincial corporate income tax rate increase from 10% to 12%. 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.

$Thousands	Year Ended December 31 2015	Year Ended December 31 2014
Income (loss) before income taxes	$ (44,544)	$ 28,121
Expected income tax at the statutory rate	(11,646)	7,140
Add (deduct):		
Change in income tax rates	1,202	(86)
Permanent differences	141	141
Return to provision adjustment	(68)	8
Other	(208)	(161)
Income tax expense (recovery)	$ (10,579)	$ 7,042

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 $Thousands	**Property, Plant and Equipment**	**Employee Pension Benefits**	**Other**	**Total**
Balance as at December 31, 2013	22,801	(652)	589	22,738
Charged/(Credited) to net income	4,552	(93)	(19)	4,440
Credited to OCI	-	(125)	-	(125)
Balance as at December 31, 2014	27,353	(870)	570	27,053
Credited to net income	**(7,653)**	**(173)**	**(37)**	**(7,863)**
Charged to OCI	**-**	**13**	**-**	**13**
Balance as at December 31, 2015	**$ 19,700**	**$ (1,030)**	**$ 533**	**$ 19,203**

13. 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 2015	December 31 2014
Reserved under current stock option plan	1,700,000	1,700,000
Balance at beginning of year	438,500	568,500
Granted during the year	(105,000)	(130,000)
Available for future issuance	333,500	438,500

A summary of the status of the Company's stock-based compensation plans as of December 31, 2015 and 2014, and changes during the years ended on those dates is presented below:

	2015		2014	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Options outstanding at January 1	577,000	12.20	447,000	11.09
Options granted	105,000	10.28	130,000	16.02
Options outstanding at December 31	682,000	11.90	577,000	12.20
Options exercisable at December 31	459,500	11.38	354,300	11.04

The following table summarizes outstanding stock options at December 31:

		2015			2014		
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	4.2	150,000	150,000	5.2	150,000
3	10.32	6,000	5.2	6,000	6,000	6.2	6,000
5	10.32	91,000	5.2	91,000	91,000	6.2	72,800
5	10.86	97,500	6.2	78,000	97,500	7.2	58,500
5	13.81	102,500	7.7	61,500	102,500	8.7	41,000
5	16.02	130,000	8.7	52,000	130,000	9.7	26,000
5	10.28	105,000	9.2	21,000			
Weighted Average Contractual Life			6.8			7.3	

b. Deferred share units

A summary of the status of the Company's deferred share unit plan as of December 31, 2015 and 2014, and changes during the years ended on those dates is presented below:

	2015		2014	
	Deferred Share Units (#)	Fair Value ($Thousands)	Deferred Share Units (#)	Fair Value ($Thousands)
Deferred share units outstanding at January 1	7,309	$ 91	-	$ -
Granted during the year	23,077	240	7,229	120
Issued in lieu of dividends	697	6	80	1
Change in fair value during the year	-	(126)	-	(30)
Transfer to current liabilities	(5,985)	(40)	-	-
Deferred share units outstanding at December 31	25,098	$ 171	7,309	$ 91

c. Shared-based compensation expense

$Thousands	Year Ended December 31 2015	Year Ended December 31 2014
Stock option expense	$ 389	$ 372
Deferred share unit expense	120	91
Total	$ 509	$ 463

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 (5 year) trading history up to the grant date, where significant outliers are excluded to provide a better estimate.

	2015	2014
Risk free interest rate	1.04%	1.54%
Expected volatility	28.0%	29.0%
Dividends yield rate	2.55%	2.20%
Option life	5.4 years	5.4 years
Weighted average share price	$ 10.28	$ 16.02
Forfeiture rate	0.00%	0.00%
Fair value of options	$ 2.18	$ 3.76

d. Share appreciation rights

The Company did not have any outstanding SARs during either 2015 or 2014; therefore no corresponding liability is recorded on the Statement of Financial Position.

14. Pension Liability

The Company obtains an actuarial valuation from an independent actuary subsequent to each year-end or if circumstances change. The most recent evaluation was dated January 18, 2016 and was utilized in measuring the December 31, 2015 balances.

$Thousands	2015	2014
Actuarial present value of defined benefit obligation at January 1	$ 3,426	$ 2,556
Interest cost	142	132
Current service cost	320	260
Benefits paid	(15)	(15)
Past service cost - plan amendments	30	-
Unrealized actuarial (gain) loss	(49)	493
Transfer to current liabilities	(60)	-
Actuarial present value of defined benefit obligation at December 31	$ 3,794	$ 3,426

Key Assumptions:

%	December 31 2015	December 31 2014
Discount rate	3.90	3.80

The anticipated retirement age of the plan members is 61 to 65 years (2014 – 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 2015	December 31 2014
Defined benefit plan		
Interest cost	$ 142	$ 132
Service cost	350	260
Expense for defined benefit plan	492	392
Expense for defined contribution plan	3,291	4,564
	$ 3,783	$ 4,956

15. Share Capital

Authorized:

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

Issued:

- All issued shares are fully paid

(Number of Shares)	Class A Non-Voting	Class B Common	Total
Shares outstanding at December 31, 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
Shares repurchased in 2015	**-**	**-**	**-**
Shares outstanding at December 31, 2015	**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-

"You get one day to bleed or one day to celebrate, then back at it."

- R.D. Southern

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.

The Estate of Mr. Ronald D. Southern owns 1,428,790 Class B Common Shares, which at March 3, 2016 represented 86.4% of the Class B Common Shares. The Estate of Mr. Southern is also the controlling share owner of Sentgraf Enterprises Ltd. ("Sentgraf"). Sentgraf owns 4,506,277 Class A Non-Voting Shares of the Company, which at March 3, 2016 represented 27.6% of the Class A Non-Voting Shares outstanding. Collectively, these shareholdings represented 33.0% of the total outstanding equity ownership in the Company at such date.

During the first five months of 2014, the Company had an outstanding normal course issuer bid 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. The Company's most recent normal course issuer bid expired on May 29, 2014. The Company did not establish a normal course issuer bid in 2015.

16. Expenses by Nature

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

	Year Ended	
$Thousands	**December 31 2015**	December 31 2014
Expenses		
Salaries, wages and benefits	**$ 60,590**	$ 87,754
Materials and supplies	**9,804**	17,295
Repairs and maintenance	**11,924**	17,429
External services and facilities	**6,841**	8,248
	$ 89,159	$ 130,726
Allocated to:		
Operating and maintenance	**$ 74,031**	$ 112,590
Selling and administrative	**15,128**	18,136
	$ 89,159	$ 130,726

17. Net Income (Loss) per Share

	Year Ended	
	December 31 2015	December 31 2014
Net income (loss) ($Thousands)	**$ (33,965)**	$ 21,079
Weighted average outstanding shares	**17,945,661**	17,948,502
Incremental shares for diluted earnings per share calculation	**-**	110,504
Weighted average outstanding shares for diluted earnings per share	**17,945,661**	18,059,006
Basic earnings (loss) per share ($)	**$ (1.89)**	$ 1.17
Diluted earnings (loss) per share ($)	**$ (1.89)**	$ 1.17

18. Segmented Information

The Company operates in one business segment and provides contract drilling services, primarily to the oil and gas industry. From time to time, the Company is involved in other forms of drilling including potash mining and the development of storage caverns. Segment information is provided on the basis of geographic segments as the Company manages its business through two geographic regions – Canada and the United States. During 2015 and 2014 the Company operated only in Canada.

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

	Year Ended	
$Thousands	**December 31 2015**	December 31 2014
Revenue (computer services, rent)	**$ 76**	$ 76
Purchases:		
Property, plant and equipment (wellsite trailers)	**203**	-
Operating (sponsorship and advertising (Note 20), other)	**495**	430
Year end accounts payable	**-**	5

b. Joint Ventures and Joint Venture Partners

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

$Thousands	Year Ended December 31 2015	Year Ended December 31 2014
Revenue	$ 30	$ 33
Operating costs	4,866	9,438
Selling and administrative costs	553	1,066
Year end accounts receivable	1,872	4,626

c. Legal fees

The Company incurred legal fees of $59,000 (2014 - $74,000) 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, 2015. At December 31, 2015, $1,000 (December 31, 2014 - $2,000) 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 their capacity as either officers or directors is shown below:

$Thousands	Year Ended December 31 2015	Year Ended December 31 2014
Salaries, directors fees and other short-term benefits	$ 2,119	$ 2,053
Post-employment benefits	616	516
Share-based payments	634	766

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, 2015, the Company had three rigs with multi-year contracts. Of these contracts, one is anticipated to expire in 2016 and a second in 2018. The third contract was cancelled in January 2016 (Note 22).

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, 2015, the Company had capital expenditure commitments of $1,001,000 due in 2016 (2014 – $5,988,000 due in 2015).

21. Changes in Non-Cash Working Capital

$Thousands	Year Ended December 31 2015	December 31 2014
Change in non-cash working capital:		
Accounts receivable	**25,671**	2,361
Income tax recoverable	**(268)**	(3,011)
Prepaid expenses and other	**109**	(54)
Accounts payable and accrued liabilities	**(18,868)**	9,940
Deferred revenue	**(175)**	(159)
	6,469	9,077
Pertaining to:		
Operations	**14,591**	7,990
Investing	**(8,122)**	1,087
	6,469	9,077

22. Subsequent Event

Subsequent to December 31, 2015, one of AKITA's customers elected to early terminate a multi-year contract that was scheduled to continue to 2019. As a result of the early termination, AKITA is scheduled to receive $29,542,000 in cancellation fees. These fees include $9,578,000 received in January 2016, $9,794,000 due during the remainder of 2016 and $10,170,000 due in 2017.

23. Accounting Changes Not Yet Adopted

Certain new or amended standards or interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee 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 anticipates may have a material effect on the consolidated financial statements or note disclosures are described below. The Company is currently evaluating the impact of these new standards on its financial statements.

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, 2018, and shall be applied retrospectively.

IFRS 9, "Financial Instruments", 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.

IFRS 16, "Leases" replaces the previous guidance on leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The new standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively.

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.

10 Year Financial Review

$Thousands (except per share)	Annual Ranking	2015	2014	2013
Summary of Operations				
Revenue	9	$ 112,488	$ 165,274	$ 168,111
Income (loss) before income taxes	10	$ (44,544)	$ 28,121	$ 35,682
Income taxes (recovery)	10	$ (10,579)	$ 7,042	$ 9,167
Net income (loss)	10	$ (33,965)	$ 21,079	$ 26,515
As a percentage of average shareholders' equity	10	(14.2%)	8.3%	11.3%
Earnings (loss) per Class A and Class B share (basic)	10	$ (1.89)	$ 1.17	$ 1.48
Funds flow from operations	6	$ 38,510	$ 56,195	$ 57,619
As a percentage of average shareholders' equity	9	16.0%	22.2%	24.6%
Financial Position at Year End				
Working capital (deficiency)	9	$ 16,002	$ (5,028)	$ 40,645
Current ratio	7	2.45:1	0.90:1	2.93:1
Total assets	4	$ 254,516	$ 340,926	$ 291,748
Shareholders' equity	4	$ 220,200	$ 259,841	$ 245,288
per share	4	$ 12.27	$ 14.48	$ 13.65
Other				
Capital expenditures (net)	8	$ 17,960	$ 103,949	$ 35,113
Depreciation and amortization	1	$ 36,748	$ 30,200	$ 26,825
Dividends paid	1	$ 6,101	$ 6,015	$ 5,567
per share	1	$ 0.34	$ 0.34	$ 0.32

Note: Financial information has been calculated under Canadian GAAP for the years 2006 to 2009 and under IFRS for the years 2010 through 2015. Readers should be aware that these two sets of accounting standards are not consistent with each other. Revenue amounts reported for 2012 through 2015 include revenue solely generated by the Company from its wholly owned operations.

2012	2011	2010	2009	2008	2007	2006
$ 203,440	$ 199,934	$ 145,138	$ 106,263	$ 137,246	$ 141,962	$ 174,543
$ 38,413	$ 31,762	$ 10,932	$ 11,901	$ 20,133	$ 28,667	$ 48,129
$ 9,658	$ 8,409	$ 3,462	$ 3,521	$ 7,147	$ 7,525	$ 14,374
$ 28,755	$ 23,353	$ 7,470	$ 8,380	$ 14,847	$ 20,752	$ 33,755
13.5%	12.1%	4.1%	4.2%	7.7%	11.5%	39.1%
$ 1.60	$ 1.29	$ 0.41	$ 0.46	$ 0.81	$ 1.14	$ 1.83
$ 59,474	$ 42,895	$ 32,798	$ 23,960	$ 34,149	$ 37,143	$ 47,199
28.0%	22.3%	17.9%	12.0%	17.6%	20.6%	54.6%
$ 31,214	$ 44,265	$ 61,341	$ 69,819	$ 63,089	$ 49,123	$ 56,681
1.70:1	2.37:1	4.04:1	7.02:1	3.90:1	3.92:1	2.77:1
$ 292,994	$ 247,130	$ 218,587	$ 234,215	$ 242,869	$ 223,522	$ 222,237
$ 223,998	$ 201,104	$ 183,739	$ 201,446	$ 198,461	$ 188,038	$ 172,873
$ 12.49	$ 11.15	$ 10.19	$ 11.05	$ 10.89	$ 10.29	$ 9.43
$ 65,356	$ 54,509	$ 36,293	$ 11,835	$ 14,622	$ 33,505	$ 40,655
$ 24,342	$ 20,933	$ 24,540	$ 17,476	$ 16,667	$ 15,164	$ 14,211
$ 5,038	$ 5,066	$ 5,079	$ 5,105	$ 5,111	$ 5,117	$ 4,448
$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.24

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

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
Senior Vice President

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

Head Office

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1000, 333 - 7th Avenue SW
Calgary, Alberta T2P 2Z1
403.292.7979

Banker

Alberta Treasury Branches
Calgary, Alberta

Counsel

Bennett Jones LLP
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

CST Trust Company
Calgary, Alberta and Toronto, Ontario
1.800.387.0825

Share Symbol / TSX

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

Website

www.akita-drilling.com

Ronald D. Southern

C.C., C.B.E., A.O.E., B.Sc., LL.D • 1930 – 2016

It is with great sadness that AKITA Drilling Ltd. announces the passing on January 21, 2016 of its Founder, Ronald D. Southern. As the Founder of the Company and its controlling shareholder, Mr. Southern was closely identified with AKITA by industry participants, the investment community and the company's shareholders. Mr. Southern was 85 years old. He is survived by his wife Margaret Southern and his daughters Nancy Southern and Linda Southern-Heathcott.

As Founder, Mr. Southern played a pivotal role in every major development in the evolution of the Company. He was instrumental in leading AKITA's predecessor company from its origins in the 1970s, through its spin-off from the ATCO Group and through the formation of AKITA as a public company in 1993 to the present day. Under Mr. Southern's guidance the Company expanded its presence into the Arctic, developed strong joint venture relationships with First Nations, Inuit and Metis groups across western and northern Canada, and was at the forefront of pad rig development and expansion in western Canada. Each of these achievements was executed with a long-term focus and with fiscal prudence. Mr. Southern's wisdom, passion, resolve and vision will be greatly missed by AKITA; the lessons he instilled and his lifelong commitment to excellence will continue to guide the Company.

Excellence

"Going far beyond the call of duty.
Doing more than others expect.
This is what excellence is all about.

It comes from striving for and
maintaining the highest standards,
looking after the smallest detail and going the extra mile.

Excellence means caring.
It means making a special effort to do more."

- R.D. Southern

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