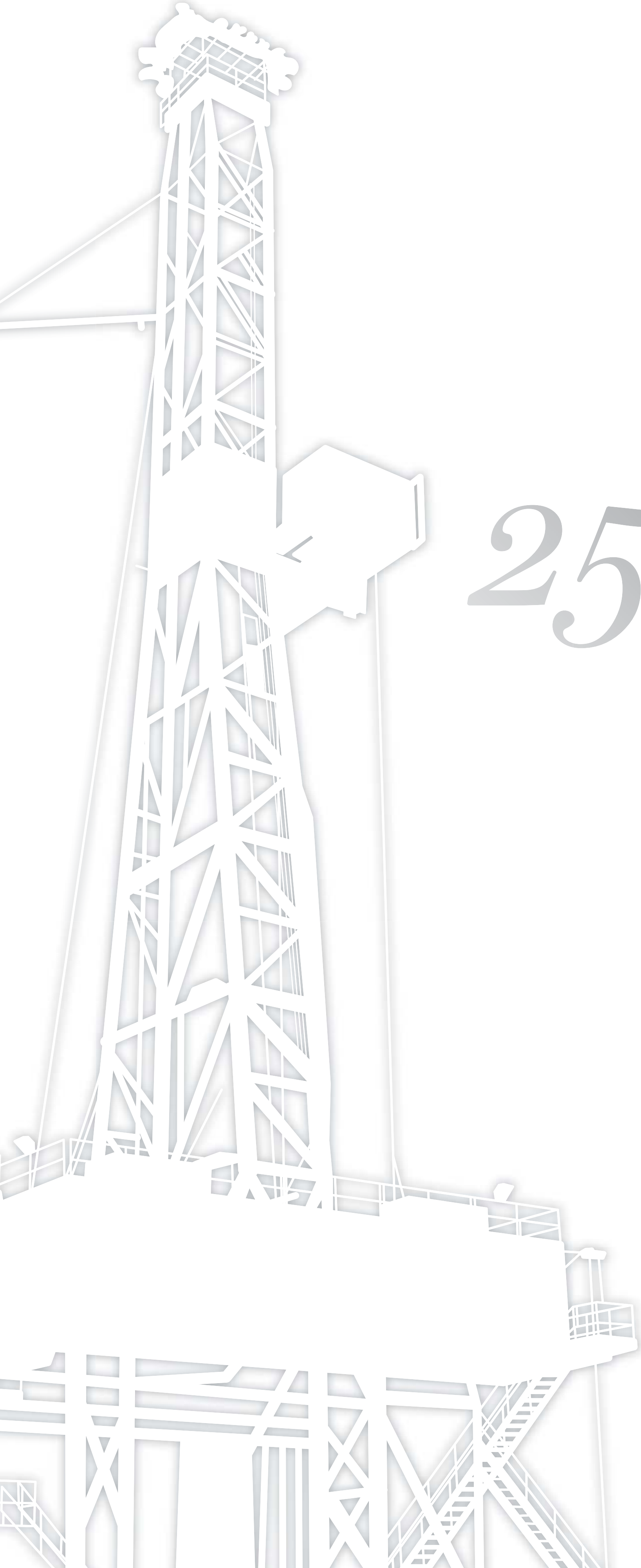


AKITA DRILLING LTD.

25 years

2017 ANNUAL REPORT

We’re committed to excellence in all that we do.

CORPORATE PROFILE

AKITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling operations throughout North America. 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 28 drilling rigs in all depth ranges.

25 years of

INTEGRITY.

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

RESPECT.

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

COMMITMENT.

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

CONTENTS

Excellence

"Going far beyond the call of duty. Doing more than others expect. Thid 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."

— RONALD D. SOUTHERN

FORWARD-LOOKING STATEMENTS

From time to time AKITA Drilling Ltd. ("AKITA" or the "Company") makes written and verbal forward-looking statements. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our business, our outlook for our industry and our risk management discussion. Forward-looking statements are typically identified with words such as "believe", "expect", "forecast", "anticipate", "intend", "estimate", "plan" and "project" and similar expressions of future or conditional events such as "will", "may", "should", "could" or "would".

By their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers, world oil and North American natural gas prices, weather, access to capital markets and government policies. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Additional information about these and other factors can be found under the "Business Risks and Risk Management" section of the Management's Discussion and Analysis of this 2017 Annual Report for AKITA.

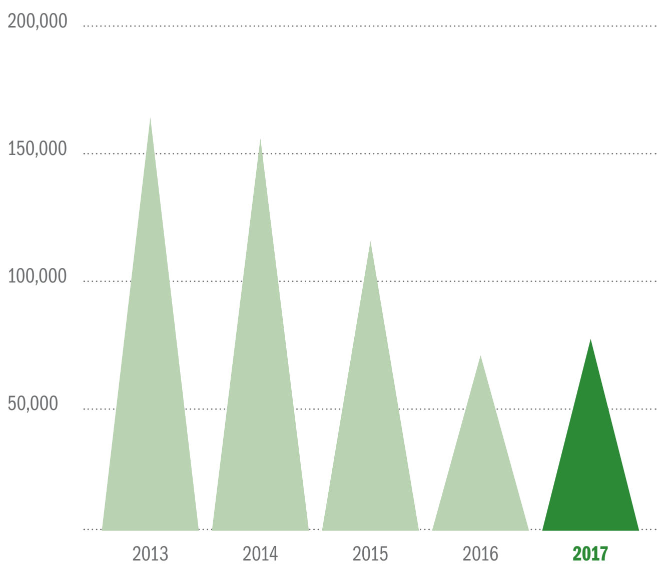
Annual Meeting

The annual meeting of the shareholders of AKITA Drilling Ltd. will be held in the Grand Lecture Theater, The Metropolitan Conference Centre, 333 – 4th Avenue S.W., Calgary, Alberta on Tuesday, May 8, 2018 at 10:00 a.m. Shareholders and other interested parties are encouraged to attend.

OPERATIONAL PERFORMANCE

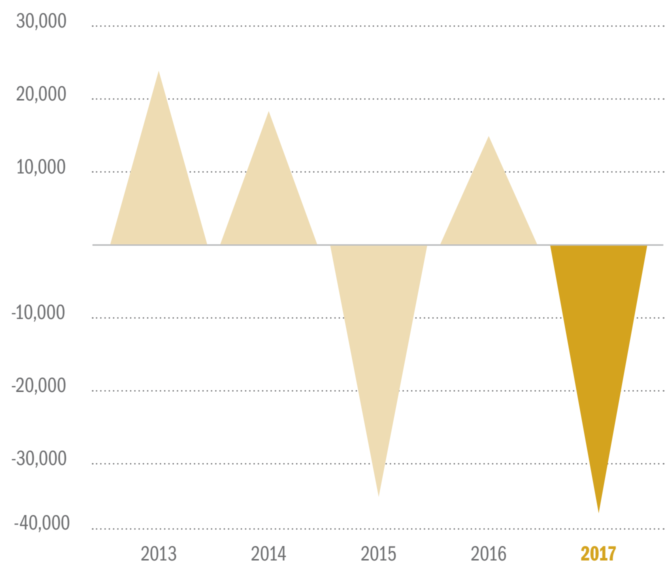
Revenue ($000's)

In 2017, revenue was 17% higher than 2016 as activity in the industry increased.



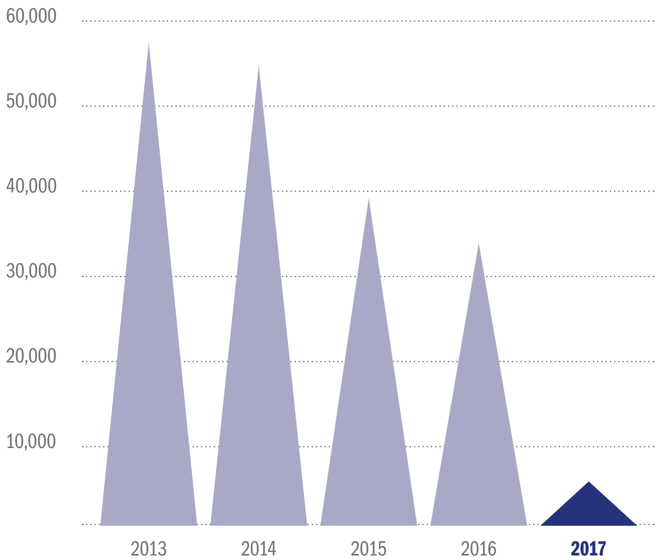
Net Earnings (Loss) ($000's)

AKITA's net loss in 2017 included an asset decommissioning and impairment expense of $29 million.



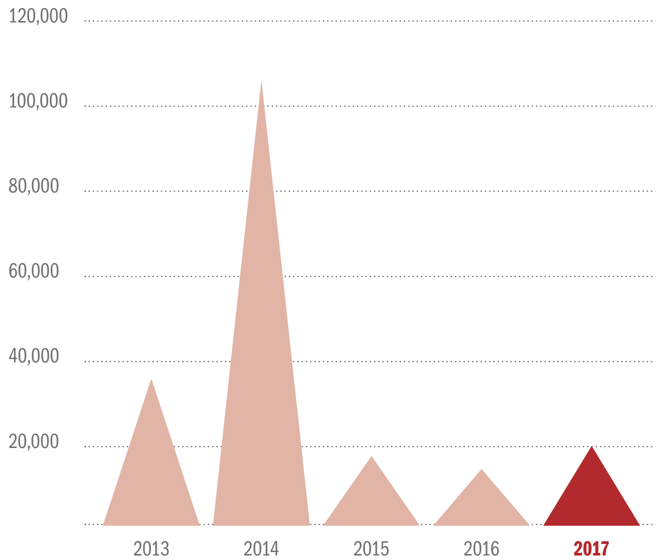
Funds Flow from Continuing Operations ($000's)

Annual funds flow was down in 2017 when compared to 2016 which included significant contract cancellation revenue.



Capital Expenditures ($000's)

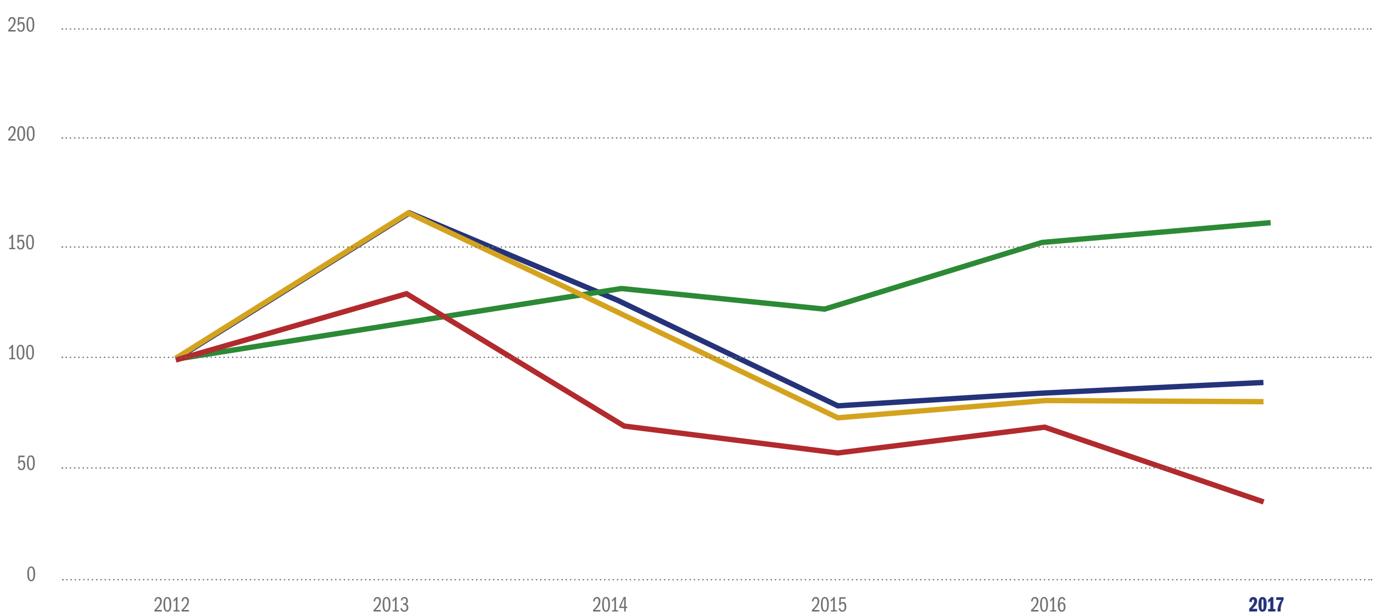
AKITA's 2017 capital expenditure program was up from 2016 as AKITA built a new heavy pad double drilling rig.



SHARE PERFORMANCE

The graph below 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, 2012 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.

Five Year Total Return on $100 Investment



	Dec 31 2012	Dec 31 2013	Dec 31 2014	Dec 31 2015	Dec 31 2016	**Dec 31 2017**
AKITA Class A Non-Voting Shares	100	154	124	70	92	**96**
AKITA Class B Common Shares	100	154	114	68	88	**87**
S&P / TSK Composite Index	100	113	125	115	139	**151**
TSX Oil & Gas Drilling Sub Index	100	123	77	55	73	**43**

Share Performance

		2013	2014	2015	2016	**2017**
Weighted average number of Class A and Class B shares		17,988,552	17,969,415	17,948,502	17,945,661	**17,945,661**
Market prices for Class A Non-Voting shares	High	$16.61	$17.86	$12.56	$9.20	**$9.88**
	Low	$10.30	$11.15	$6.10	$5.88	**$6.52**
	Close	$15.79	$12.40	$6.79	$8.45	**$7.36**
Volume		3,345,199	2,093,823	1,603,746	930,748	**1,324,111**
Market prices for Class B Common shares	High	$16.79	$18.30	$13.30	$11.00	**$9.95**
	Low	$10.65	$11.75	$6.87	$7.11	**$6.94**
	Close	$16.50	$12.00	$6.87	$8.53	**$7.61**
Volume		18,393	21,019	32,326	18,674	**41,479**

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.

	2013	2014	2015	2016	**2017**
Dividends per share ($)	0.32	0.34	0.34	0.34	**0.34**

LETTER TO THE SHAREOWNERS

AKITA's expansion into the USA presents an exciting opportunity for the Company with significant growth potential.

AKITA Drilling Ltd.'s net loss for the year ended December 31, 2017 was $39,177,000 (net loss of $2.18 per share (basic and diluted)) on revenue of $71,198,000 compared to net income of $5,329,000 or $0.30 earnings per share (basic and diluted) on revenue of $61,061,000 in 2016. Included in the 2017 net loss is an asset decommissioning and impairment expense of $29,123,000 (after tax effect of $15,320,000 or $0.85 per share). 2016 results included significant contract cancellation revenue of $28,250,000 ($20,609,000 after tax). Net loss from routine operations in 2017 totalled $23,857,000 (2016 - $15,280,000). Funds flow from operations for the current year was $6,607,000 compared to $34,500,000 ($13,891,000 net of contract cancellation revenue) in 2016, while net cash from operating activities for 2017 was $3,724,000 compared to $11,892,000 in 2016.

The Canadian drilling industry saw significant activity improvements in 2017 with utilization improving to an annual industry average of 30% from 17% in 2016. AKITA's utilization rose to 36% in 2017 from 14% in 2016. This improvement in activity was driven by higher prices for crude oil which steadily increased throughout 2017. The increase in activity was spread across several rig categories for the Company, with pad triples, pad doubles, conventional doubles and conventional singles all more than doubling their operating days in 2017 compared to 2016. Triple pad rigs were the most active category for the Company generating 65% of the Company's operating days. These rigs are primarily focussed in the SAGD/Heavy Oil segments of the Canadian market.

Despite the significant escalation in drilling activity in 2017 over 2016, there is still more supply than demand for rigs which is resulting in low pricing for drilling services. The Company's revenue per operating day decreased to $26,704 in 2017 from $31,447 in 2016. This 15% drop had a significant impact on the Company's earnings as well as funds flow from operations. The decrease in revenue per day for the Company was a result of a change in the mix of rigs that operated in the year. Without a significant shift in demand for rigs or a reduction in the Canadian rig fleet, AKITA does not anticipate any significant price increases in the near future.

On November 21, 2017, the Canadian Association of Oilwell Drilling Contractors ("CAODC") released its 2018 industry drilling forecast, estimating 32% average rig utilization, up slightly from the 30% actual average rig utilization in 2017, and 6,138 wells in 2018, up from 6,031 in 2017. The 2018 forecast was based upon commodity price assumptions of US $52.50 per barrel for crude oil and CAD $2.35 per mcf for natural gas. Based on the CAODC forecast it would appear that 2018 will be very similar to 2017. Without improvements to the existing takeaway capacity in Canada, the Canadian market may see limited growth. The company's focus in 2018 will be on reducing costs in its Canadian operations.

AKITA began looking for growth opportunities in other geographical markets in 2017 due to the low activity and low profit margins prevailing in the Canadian market. After evaluating several potential alternatives, the Company created a United States subsidiary to pursue opportunities in the most active basin in North America, the Permian Basin. In December of 2017 the Company moved a state of the art rig into Odessa Texas and began marketing the rig to operators in the area. This rig has subsequently been contracted to a major USA operator. AKITA's expansion into the USA presents an exciting opportunity for the Company with significant growth potential.

Despite 2017 proving to be another challenging year, AKITA's Board of Directors maintained a quarterly dividend to shareowners in the amount of $.085 cents per share.

We would like to express a special thanks to AKITA's employees for their adaptability, hard work and commitment to excellence during these difficult market conditions. We would also like to express our appreciation to our partners, customers and suppliers who worked closely with us during 2017 to come up with innovative solutions for working through these challenging times. Finally, we wish to acknowledge the contribution of our directors, whose thoughtful counsel and guidance have helped to create and maintain a strong and successful Company, and the AKITA Shareowners for their continued support and confidence in the Company.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
President and
Chief Executive Officer

March 7, 2018

MANAGEMENT'S DISCUSSION & ANALYSIS

The following sets out management's discussion and analysis ("MD&A") of the consolidated financial position as at December 31, 2017 and 2016, 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, 2017 and 2016. 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 2017 and 2016, including the notes thereto, found on pages 41 to 68 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 7, 2018, 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.

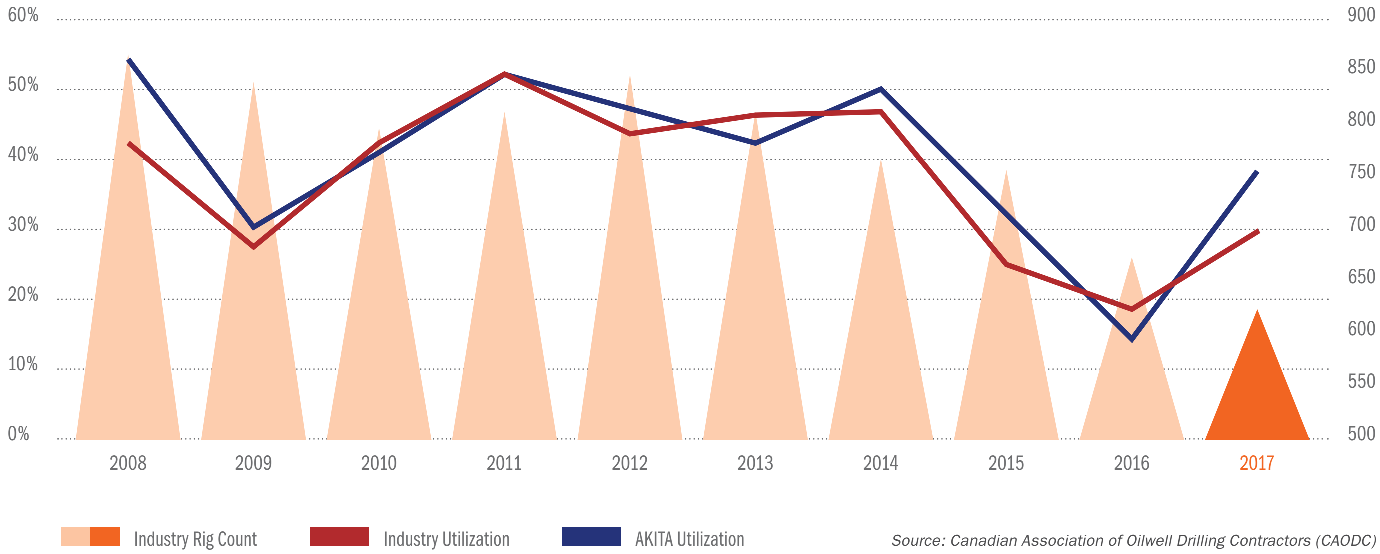
Introduction and General Overview

AKITA is a premier Canadian oil and gas drilling contractor. During 2017, 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. At December 31, 2017, 27 of the Company's 28 rigs were located in Western Canada while one rig was located in Odessa, Texas. AKITA operates five of its rigs through First Nations and Aboriginal joint venture partnerships where AKITA owns 50% to 85% of each rig and AKITA's joint venture First Nations and Aboriginal partners own the balance.

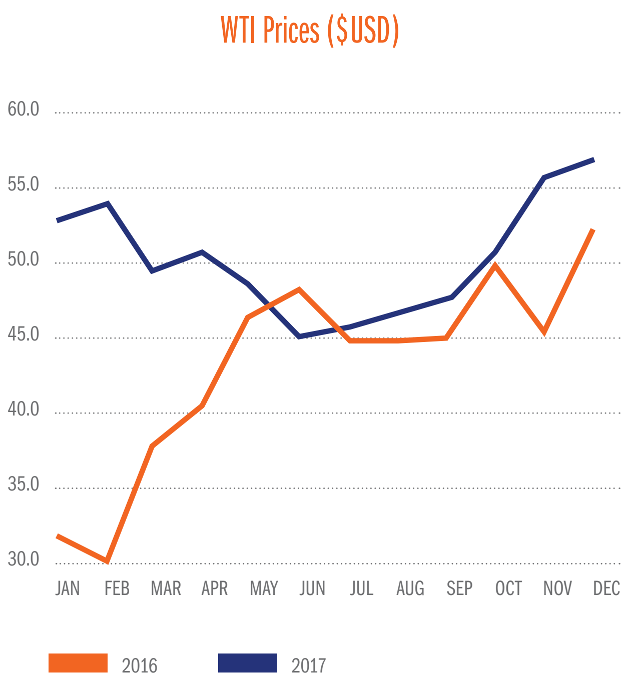
With a singular focus on the provision of drilling services, a commitment to rigorous crew training, rig maintenance and safety processes and adherence to a leading quality assurance – quality control program, AKITA's strategy has been to ensure it is well positioned to meet the most demanding requirements of global operators who offer long-lasting resource based drilling programs. The Company has utilized this strategy to enhance its development of pad rigs designed for both heavy oil and unconventional natural gas formations.

Fleet and Utilization

Oil and gas contract drilling activity is cyclical and is affected by numerous factors, most importantly world crude oil prices and North American natural gas prices. Overall demand for AKITA's drilling services improved in 2017 compared to 2016 as illustrated in the accompanying rig utilization chart.



Source: Canadian Association of Oilwell Drilling Contractors (CAODC)



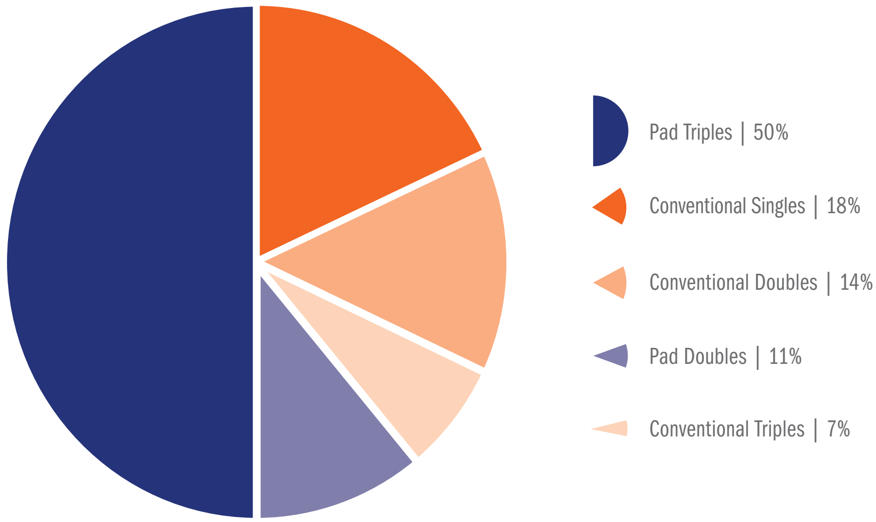
Source: U.S. Energy Information Administration

Driving the increase in activity was the steady increase in oil prices through 2017, with the average West Texas Intermediate ("WTI") price increasing 18% in 2017 compared to 2016. Average Alberta natural gas prices also improved 6% in 2017 over 2016. Improved prices for both crude oil and natural gas led to increased capital spending by AKITA's customers, many of whom had scaled back their drilling programs in 2016.

At the same time both industry and AKITA utilization levels increased in 2017, the Western Canadian Sedimentary Basin ("WCSB") rig count continued to decline, dropping 6% in 2017 compared to 2016. The decrease in rig count contributed to the improvement in industry utilization; increased activity was the prime driver of the utilization increase. AKITA's drilling fleet of 27 rigs in Canada represented 4.5% of the total Canadian drilling fleet at December 31, 2017 (December 31, 2016 – 4.2%).

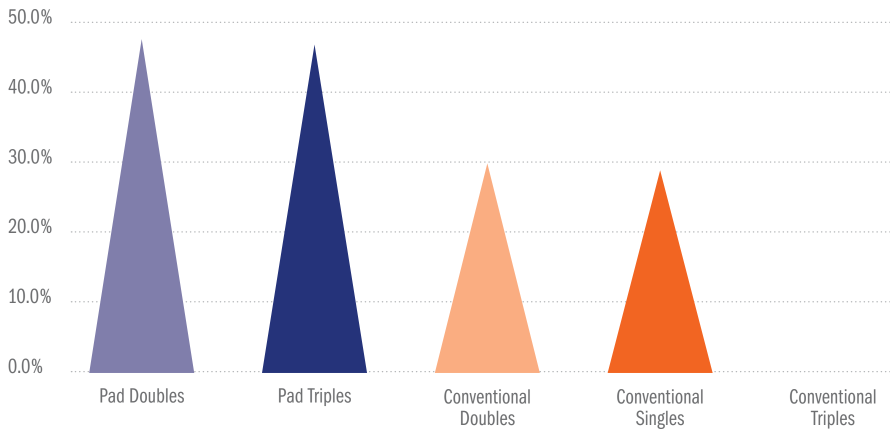
Utilization rates are a key statistic for the drilling industry since they directly affect total revenue and influence pricing. During 2017, AKITA achieved 3,659 operating days, which corresponds to an annual utilization rate of 36%, compared to 2016 utilization of 14% (1,583 days), and a 2017 industry average of 30%. Historically AKITA's utilization has been above industry standard due to the higher than average number of pad drilling rigs in AKITA's fleet. Pad drilling rigs typically have higher utilization than conventional rigs as pad drilling is a more efficient way to drill multiple wells without needing trucks to move. AKITA's fleet breakdown is detailed in the chart to the right.

Drilling Fleet Summary at December 31, 2017



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

AKITA 2017 Utilization by Rig Type

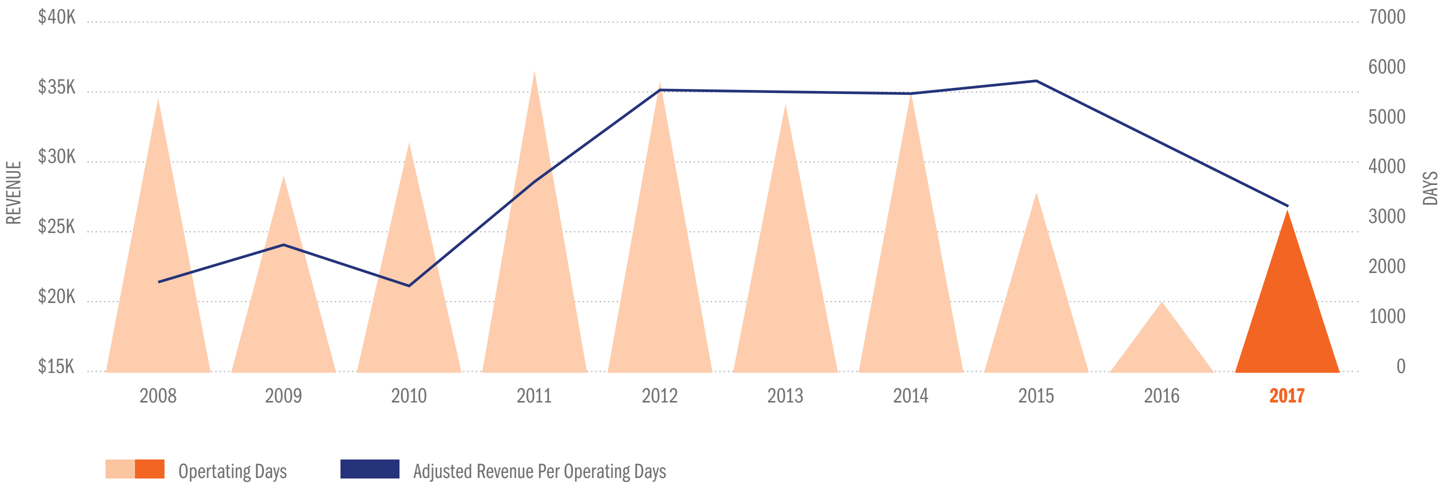


In 2017, the Company built and deployed an AC heavy double pad drilling rig that commenced operations in the third quarter of 2017. AKITA also decommissioned one conventional triple drilling rig during the year.

2017 Fleet Changes	Gross	Net
Number of rigs at December 31, 2016	28	26.75
Construction of heavy double pad rig	1	1.00
Decommissioning of rig	(1)	(1.00)
Number of rigs at December 31, 2017	28	26.75

Revenue per Day

The decrease in revenue per day in 2017, as shown in the following chart, was directly related to lower day rates in the industry. Despite the decrease in the WCSB rig count, there is still an oversupply of rigs compared to demand in Canada and therefore rates remain very low. In contrast, activity levels in the United States have reached a level where day rates are increasing. AKITA moved a high spec rig to the U.S. Permian Basin in the fourth quarter of 2017 to take advantage of high demand in that market.



Note: Revenue has been calculated under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for the years 2008 to 2009 and under International Financial Reporting Standards ("IFRS") for the years 2010 to 2017. 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 2017 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-GAAP and Additional GAAP Items".

Seasonality

The drilling industry in Canada 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.

Revenue and Operating & Maintenance Expenses

$Millions	2017	2016	Change	% Change
Contract drilling revenue	71.2	61.0	10.2	17%
Operating & maintenance expenses	62.2	24.2	38.0	157%

$Dollars	2017	2016	Change	% Change
AKITA and joint ventures' revenue per operating day[1]	26,704	31,447	(4,743)	(15%)
AKITA and joint ventures' operating & maintenance expenses per operating day[1]	22,226	22,015	211	1%

[1] AKITA and Joint Ventures' revenue per operating day and AKITA and Joint Ventures' operating & maintenance expenses per operating day are non-GAAP financial measures. See commentary in "Basis of Analysis in this MD&A, Non-GAAP and Additional GAAP Items".

Revenue of $71,198,000 in 2017 was 17% higher than 2016 revenue of $61,061,000, due to increased activity in 2017. Excluding the 2016 contract cancellation revenue of $28,250,000, revenue directly related to drilling activities increased 117% in 2017 compared to 2016 ($71,198,000 in 2017 from $32,811,000 in 2016). This increase in activity is also reflected in the 131% increase in operating days between the two years. Revenue per operating day including AKITA's share of revenue from its joint ventures was $26,704 per day in 2017, down 15% from $31,447 in 2016. The drop in revenue per day in 2017 corresponded to an increased number of lower margin rigs working in 2017 than in 2016. AKITA's share of revenue from its joint ventures was included in the per day amounts as AKITA provides the same drilling services through its joint venture rigs as it does its wholly-owned rigs.

Operating and maintenance costs are tied to activity levels and increased to $62,156,000 in 2017 from $24,169,000 in 2016. On a per day basis, when including AKITA's portion of joint venture operating costs per day in 2017 remained consistent with the prior year, increasing only 1% in 2017 over 2016.

AKITA provided drilling services to 35 different customers in 2017 (2016 - 29 different customers), including two customers that each provided more than 10% of AKITA's revenue for the year (2016 – three customers).

Depreciation and Amortization Expense

$Millions	2017	2016	Change	% Change
Depreciation and amortization expense	27.1	24.0	3.1	13%

Drilling rigs are generally depreciated using the unit of production method. Depreciation is typically calculated for each rig's major components resulting in an average useful life of 3,600 operating days per rig, subject to annual minimum imputed activity levels. In certain instances where rigs are inactive for extended periods, the Company's depreciation rate is accelerated. Major rig upgrades are depreciated over the remaining useful life of the related component or to the date of the next major upgrade, 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 $27,126,000 during 2017 from $23,959,000 during 2016 was attributable to more operating days in 2017. On a per operating day basis, depreciation decreased to $7,414 per operating day in 2017 from $9,153 per operating day in 2016 as a result of fewer inactive rigs incurring depreciation relating to minimum imputed activity levels in 2017. Drilling rig depreciation accounted for 96% of total depreciation and amortization expense in 2017 (2016 – 96%).

Selling and Administrative Expenses

$Millions	2017	2016	Change	% Change
Selling and administrative expenses	13.7	12.5	1.2	9%

Selling and administrative expenses increased to $13,659,000 in 2017 from $12,502,000 in 2016. The increase in 2017 is related to higher business development costs as well as higher personnel costs.

Selling and administrative expenses equated to 19% of revenue in 2017, compared to 20.5% of revenue in 2016, as a result of the increase in revenue and the fixed nature of the majority of selling and administrative expenses.

The single largest component of selling and administrative expenses was salaries and benefits which accounted for 51% of these expenses in 2017 (2016 – 55%).

Asset Decommissioning and Impairment

$Millions	2017	2016	Change	% Change
Asset impairment loss	16.0	0.0	16.0	N/A
Asset decommissioning loss	13.1	0.0	13.1	N/A
Asset decommissioning and impairment loss	29.1	0.0	29.1	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, 2017, it did determine one external indicator of impairment at that date: the lack of an increase in market rates in the drilling industry despite both increases to both drilling activity and oil prices over the prior year. The resulting lower drilling rates for longer forecast prompted the Company to perform an impairment analysis on its cash generating units (CGUs) which are comprised of the following:

- Hydraulic Single Rigs;
- Heavy Single Rigs;
- Tele-Double Rigs;
- Heavy Triples Rigs;
- A.C. Tele-Double Pad Rigs;
- A.C. Oil Sands Pad Rigs;
- D.C. Pad Rigs; and
- A.C. Deep Gas Pad Rigs.

As at December 31, 2017, the recoverable amounts of these CGUs were determined as the higher of fair value less cost of disposal and the value-in-use basis.

Fair value less cost of disposal was determined through the use of appraisals prepared in December 2017 by independent third party valuation experts.

Value-in-use was calculated using the discounted cash flow for each CGU using the Company's 2018 budget and business plan as well as internal forecasts as the bases of the calculation of discounted cash flows.

These tests indicated that certain of the Company's CGUs carrying amounts exceeded their recoverable amounts, resulting in impairment losses of $16,000,000 (2016 – nil).

The amounts in excess of the recoverable amounts for each of the Company's impaired CGUs at December 31, 2017 were as follows:

Cash Generating Unit	Impairment Amount	Basis for Recoverable Amount
Hydraulic Single Rigs	2,500,000	Fair value less cost to dispose
Heavy Single Rigs	1,000,000	Value-in-use
Tele-Double Rigs	3,500,000	Fair value less cost to dispose
AC Deep Gas Pad Rigs	8,000,000	Fair value less cost to dispose
DC Pad Rigs	1,000,000	Fair value less cost to dispose
Total Asset Impairment	**$16,000,000**	

The assumptions used in the value-in-use impairment tests were based on the Company's board approved 2018 budget and business plan covering a three year period and applied an average growth rate ranging from 0% to 5% over a 10 year period depending on the CGU being analyzed. In forecasting its projected cash flows the Company assumed that current market conditions will persist into the future. The Company assumed a pre-tax discount rate of 13%, in order to calculate the present value of projected cash flows. Determination of this discount rate included analysis of the cost of debt and equity for the Company and the Canadian drilling industry incorporating a risk premium based on current market conditions. This valuation has a fair value hierarchy of Level 3.

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:

- Reduced future revenue assumptions by 10%;
- Increased inflation for cash outflows to 5%; and
- Increased the pre-tax discount rate from 13% to 16%.

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 $680,000 to $13,800,000. As the base case test represented management's best estimates, these sensitivity reductions were not included in the asset impairment loss reported.

In the fourth quarter of 2017 the Company performed a detailed review of its property, plant and equipment in light of a forecasted lower for longer demand for drilling rigs in the WCSB. The review resulted in a non-cash asset decommissioning expense of $13,123,000 (2016 – nil) relating to older spare equipment with uncertain future value.

Equity Income from Joint Ventures

Equity income from joint ventures is comprised of the following:

$Millions	2017	2016	Change	% Change
Proportionate share of revenue from joint ventures	**26.5**	17.0	9.5	56%
Proportionate share of operating & maintenance expenses from joint ventures	**19.2**	10.7	8.5	79%
Proportionate share of selling & administrative expenses from joint ventures	**0.4**	0.2	0.2	100%
Equity income from joint ventures	**6.9**	6.1	0.8	14%

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 relating to increased activity, revenue per day as well as operating expenses.

Other Income (Loss)

$Millions	2017	2016	Change	% Change
Interest income	**0.4**	1.0	(0.6)	(59%)
Interest expenses	**(0.2)**	(0.2)	(0.0)	0%
Gain on sale of assets	**0.2**	0.1	0.1	122%
Net other gains	**0.3**	0.1	0.2	103%
Total other income (loss)	**0.7**	1.0	(0.3)	(33%)

Interest income decreased to $439,000 in 2017 from $965,000 in 2016 due primarily to less interest accrued on the receivable related to the contract cancellation revenue as the Company continued to collect the outstanding receivable.

During 2017, the Company recorded interest expense of $168,000 (2016 – $163,000) related to the future cost of the Company's unfunded defined benefit pension plan.

During 2017, the Company disposed of non-core assets resulting in a gain of $194,000 (2016 – gain of $90,000).

In 2017, amounts reported as "Net Other Gains" of $232,000 included $119,000 in income from the sale of previously written off equipment. In 2016, "Net Other Gains" of $148,000 related to various miscellaneous income.

Income Tax Expense (Recovery)

$Millions, Except Income Tax Rate (%)	2017	2016	Change	% Change
Current tax recovery	**(3.0)**	(2.3)	(0.7)	(30%)
Deferred tax expense (recovery)	**(11.1)**	4.5	(15.6)	(346%)
Total income tax expense (recovery)	**(14.1)**	2.2	(16.3)	(739%)
Effective income tax rate	**26.8%**	29.2%		

AKITA had an income tax recovery of $14,053,000 in 2017 compared to a tax expense of $2,206,000 in 2016. The change in current tax recovery resulted from a slightly higher loss for tax purposes in the year when comparing 2017 to 2016.

The decrease in deferred tax is result of the asset impairment and decommissioning expense recorded in 2017 that reduced the Company's future tax liability.

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

$Millions	2017	2016	Change	% Change
Net income (loss)	**(39.2)**	5.3	(44.5)	(839%)
Funds flow from operations(1)	**6.6**	34.5	(27.9)	(81%)

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

During 2017, the Company recorded a net loss of $39,177,000 (net loss of $2.18 per Class A Non-Voting and Class B Common share (basic and diluted)) compared to net income of $5,329,000 (net income of $0.30 per Class A Non-Voting and Class B Common share (basic and diluted)) in 2016. The material difference in net income from 2017 and 2016 is largely attributable to the asset decommissioning and impairment expense in 2017 of $29,123,000 and $28,500,000 revenue from contract cancellation AKITA received in 2016.

Funds flow from operations decreased to $6,607,000 in 2017 from $34,500,000 in 2016.

Both net income and funds flow from operations were impacted by the low revenue per operating day in 2017. With revenue per day down 15% in 2017 from already reduced rates in 2016 and operating costs per day up 1% over the same time frame, the Company saw record low operating profits despite the activity for the year.

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

$Millions	2017	2016	Change	% Change
Funds flow from operations[(1)]	6.6	34.5	(27.9)	(81%)
Change in non-cash working capital	6.3	(17.4)	23.7	136%
Equity income from joint ventures	(6.9)	(6.1)	(0.8)	(13%)
Current income tax recovery	(3.0)	(2.3)	(0.7)	(30%)
Income tax recoverable	2.3	3.3	(1.0)	(30%)
Interest paid and other	(0.2)	(0.1)	(0.1)	(100%)
Net cash from operating activites	5.1	11.9	(6.8)	(57%)

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

Summary of Quarterly Results

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

($Thousands, except per share) (Unaudited)	Three Months Ended				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual Totals
2017					
Revenue	**19,193**	**17,986**	**14,908**	**19,111**	**71,198**
Net loss	**(4,975)**	**(4,491)**	**(3,811)**	**(25,900)**	**(39,177)**
Loss per share (basic and diluted) ($)	**(0.28)**	**(0.25)**	**(0.21)**	**(1.44)**	**(2.18)**
Funds flow from operations[1]	**1,824**	**3,254**	**1,472**	**57**	**6,607**
Cash flow from (used in) operations	**3,399**	**3,407**	**969**	**(2,701)**	**5,074**
2016					
Revenue	41,991	3,646	6,616	8,808	61,061
Net income (loss)	18,173	(4,062)	(4,668)	(4,114)	5,329
Earnings (loss) per share (basic and diluted) ($)	1.01	(0.23)	(0.26)	(0.23)	0.30
Funds flow from operations[1]	25,368	2,688	2,197	4,247	34,500
Cash flow from (used in) operations	12,843	2,219	(2,158)	(1,012)	11,892
2015					
Revenue	46,715	22,536	22,021	21,216	112,488
Net income (loss)	4,218	(1,620)	(7,581)	(28,982)	(33,965)
Earnings (loss) per share (basic and diluted) ($)	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

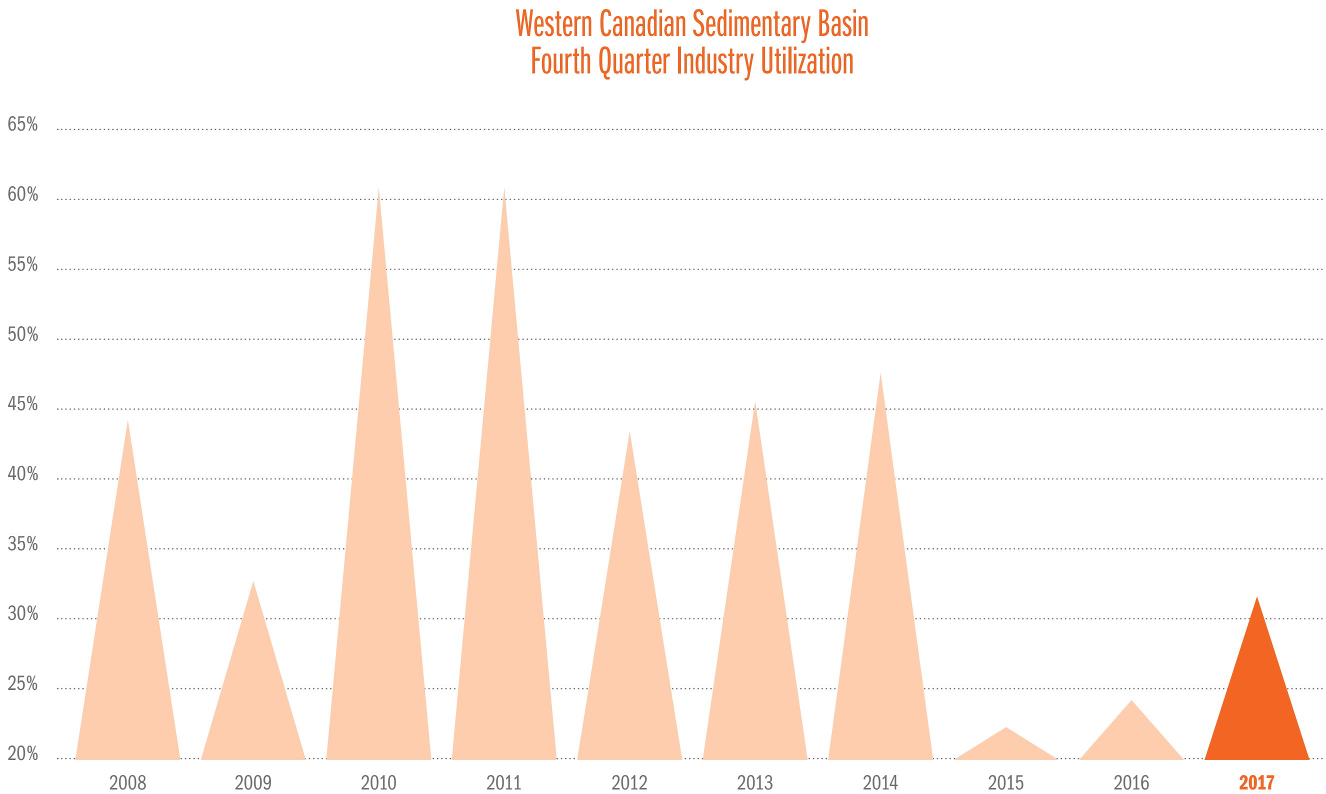
[1]Funds Flow from Operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-GAAP and Additional GAAP Items".

Key trends over the 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], peaked in Q1 2014 and have steadily declined since then, with 2015 Q2 to Q4 seeing little seasonal fluctuation and 2016 having the lowest activity in Q2. A gradual strengthening in the second half of 2016 held through 2017 however activity levels are still well below historical averages;
- Revenue per operating day which, influences both net income and funds flow from operations[1], had been generally decreasing during 2015 and 2016 due to decreasing demand for drilling services. This decrease continued to the middle of 2016 where it has held until the fourth quarter of 2017, which saw some small increases in day rates; 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 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-GAAP and Additional GAAP Items".

Fourth Quarter Analysis



During the fourth quarter of 2017, the Company achieved 957 operating days compared to 491 operating days during the corresponding period in 2016. As noted earlier in this MD&A, improved crude oil prices in 2017 have led to increased capital spending by the Company's customers which in turn has led to higher utilization for the Company and the industry as a whole. This 95% increase in operating days for the Company resulted in a 117% increase in revenue with revenue increasing to $19,111,000 in the fourth quarter of 2017 from $8,808,000 in the fourth quarter of 2016.

AKITA incurred a net loss of $25,900,000 (net loss of $1.44 per Class A Non-Voting and Class B Common share (basic and diluted)) for the fourth quarter of 2017 compared to a net loss of $4,114,000 or $0.23 loss per share (basic and diluted) in the fourth quarter of 2016. The loss is primarily attributable to the asset impairment and decommissioning expense of $29,123,000 recorded in the quarter. Funds flow from operations decreased to $57,000 in the fourth quarter of 2017 from $4,247,000 in the corresponding quarter in 2016 due to costs incurred to move a rig to Texas, as well as accrued costs related to changes in Saskatchewan's provincial sales tax (PST) whereby drilling rigs are no longer exempt from PST which must be remitted on a portion of the capital cost of the rig when operating in the province.

At December 31, 2017, AKITA had $15,528,000 in working capital (working capital ratio of 2.02:1) including $560,000 in cash, compared to a working capital of $34,907,000 (working capital ratio of 4.49:1) and $14,250,000 cash for the previous year. The decrease in cash in 2017 compared to 2016 is due to capital spending on AKITA's new AC pad double drilling rig and low margins not offsetting this capital spending.

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)	**2017**	2016	2015
Revenue	**71,198**	61,061	112,488
Net income (loss)	**(39,177)**	5,329	(33,965)
Earnings (loss) per share (basic and diluted)	**(2.18)**	0.30	(1.89)
Dividends per Class A Non-Voting and Class B Common share	**0.34**	0.34	0.34
Funds flow from operations(1)	**6,607**	34,500	38,510
Net cash from operating activities	**5,074**	11,892	41,507
Year-end working capital	**15,528**	34,907	16,002
Year-end shareholders' equity	**174,455**	219,646	220,200
Year-end total assets	**207,497**	257,907	254,516

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

Liquidity and Capital Resources

At December 31, 2017, AKITA had $15,528,000 in working capital including $560,000 in cash and no bank indebtedness, compared to a working capital of $34,907,000, including $14,250,000 in cash at December 31, 2016. In 2017, AKITA generated $5,074,000 cash from operating activities. Cash was also generated from joint venture distributions ($6,095,000), from reductions in cash balances restricted for loan guarantees ($1,444,000) and from proceeds on sales of assets ($221,000). During the same period, cash was used for capital expenditures ($20,569,000)(1) and payment of dividends ($6,100,000)(1). Accounts payable at year end included $9,401,000 in accrued expenses, half of which related to routine operations while the other half related to one-time items such as the expense related to the changes in Saskatchewan PST as well as the cost to move a rig from Canada to the US.

(1)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 totaling $50,000,000 that is available until 2019. The interest rate on the facility is 1.25% over prime interest rates or 2.50% over guaranteed notes, depending on the preference of the Company. The Company had no borrowings from this facility at December 31, 2017.

The credit facility has the following financial covenant:

- EBITDA(1) to interest expense shall not be less than 2.00 to 1.

The borrowing base of the facility is calculated on:

- 75% of good accounts receivable(1); plus
- 40% of the aggregate book value of the consolidated eligible fixed assets(1).

(1)Readers should be aware that each of the EBITDA, interest expense, good accounts receivable and consolidated eligible fixed 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, 2017 and 2016, the Company did not have any forward currency contracts.

The Company did not have an outstanding normal course issuer bid during 2017 or 2016.

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

Contractual Obligations ($Thousands)	**Total**	**Less than 1 year**	**1 -3 years**	**4 -5 years**	**After 5 years**
Operating leases[1]	**1,675**	825	850	Nil	Nil
Purchase obligations	**650**	325	325	Nil	Nil
Capital expenditure commitments	**2,532**	2,532	Nil	Nil	Nil
Long-term pension obligations	**4,832**	Note	Note	Note	Note
Total contractual obligations	**9,689**	—	—	—	—

[1]In 2017, the annual cost for this lease is $810,000. The lease expires on December 31, 2019.

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost for year one ranges from $90,000 to $242,000 and from year two and beyond, $90,000 to $315,000.

Property, Plant and Equipment

Capital expenditures totaled $20,569,000 in 2017 ($13,193,000 in 2016). Capital spending in 2017 was as follows; $7,500,000 for the construction of a new pad double drilling rig, $7,574,000 for certifications and overhauls, $2,671,000 for drill pipe and drill collars, $2,551,000 for rig equipment and upgrades and the balance of capital expenditures was for other equipment. The costs incurred during 2016 for capital were $4,723,000 for certifications and overhauls, $1,776,000 for drill pipe and drill collars, $3,206,000 for rig equipment and upgrades and $3,361,000 in loans and payables assumed by the Company upon the acquisition of three joint venture partners' percentage ownership of two joint venture rigs. The balance of capital expenditures was for other equipment.

During 2017, the Company sold ancillary assets for $221,000 (2016 - $202,000) that resulted in a gain of $194,000 (2016 – gain of $90,000).

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, 2017 or 2016.

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 conservative 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 are 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 2017 and 2016 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Operating purchases totaled $394,000 and included sponsorship and advertising $341,000 and other miscellaneous purchases of $53,000. At December 31, 2017, the outstanding commitment of the Company's multi-year sponsorship and advertising contract with Spruce Meadows was $650,000. Costs incurred related to this contract during 2017 were $325,000 (2016 - $325,000). Costs and related services are consistent with parties dealing at arm's length.

The Company incurred legal fees of $107,000 (2016 - $42,000) during the year for services related to various legal matters with a law firm of which a director of the Company was a partner at December 31, 2017. At December 31, 2017, $22,000 (December 31, 2016 - $1,200) 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	2017	2016
Revenue	**6**	111
Operating and maintenance expenses	**4,736**	2,241
Selling and administrative expenses	**531**	289
Year-end accounts payable	**1,044**	1,180

Note: Joint venture revenue from related parties includes only intercompany asset movements and does not relate to drilling operations.

Class A and Class B Share Dividends

Per share	2017	2016	Change	% Change
Dividends per share ($)	**0.34**	0.34	0.00	0%

During 2017, AKITA declared dividends totaling $6,100,000 ($0.34 per share) on its Class A Non-Voting shares and Class B Common shares, compared to $6,100,000 ($0.34 per share) for 2016. 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 7, 2018 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

At March 7, 2018, 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 876,000 stock options outstanding, of which 620,500 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 Statement of Financial Position date. Depending on the actual transaction, total assets and liabilities of the Company as well as results of operations including net income could be either understated or overstated as a result of differences between amounts accrued for incomplete transactions and the subsequent actual balances.

The preparation of AKITA's consolidated financial statements requires management to make significant estimates relating to the useful lives of drilling rigs. Drilling rigs are depreciated using the unit of production method. Depreciation is calculated

Issued

	Class A Non-Voting		Class B Common		Total	
$Thousands, except share and option amounts	No. of Shares	Consideration	No. of Shares	Consideration	No. of Shares	Consideration
December 31, 2016	16,291,877	22,505	1,653,784	1,366	17,945,661	23,871
December 31, 2017	**16,291,877**	**22,505**	**1,653,784**	**1,366**	**17,945,661**	**23,871**

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 the 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 are indicators of asset impairment. If such indicators exist, the Company performs an asset impairment test and, if required, the Company recognizes an asset 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 or the recoverable amount. The carrying amount of the asset is reduced by the impairment loss. Please refer to the section "Asset Impairment" on page 17 for further information.

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 long-term defined benefit pension liability for certain employees and retired employees that was recorded as $4,832,000 at December 31, 2017 (2016 - $4,303,000). Changes in AKITA's pension liability estimates do not have any effect on the changes to the financial condition of the Company, since the defined benefit pension is a 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 2017, a key assumption is the 3.3% discount rate (2016 – 3.6%).

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, 2017, AKITA provided $1,525,000 in deposits with its bank for those purposes (December 31, 2016 - $2,969,000). 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: proximity of the rig to the drilling program, 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 and has recently deployed one of its rigs to the Permian Basin. The Company has developed and maintains a 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.

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 is also API Q2 certified, a quality management system developed by the American Petroleum Institute. 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 2017, AKITA earned 26% of revenue from two major customers. These were the only customers who individually provided over 10% of the Company's revenue for the 2017 fiscal

year. 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.

Foreign Operations

AKITA's expansion into the United States increases the Company's exposure to risks inherent in foreign operations. Risks include, but are not limited to, foreign currency fluctuations, different taxation regimes, potential litigation and potential political protectionist measures. While AKITA has increased its insurance coverage to offset the increased chance of litigation and has engaged third party experts to assist in taxation matters, there can be no assurance that the Company will be fully effective in mitigating foreign operation risks. Such risks could have material adverse effects on AKITA's business, financial condition, results of operations and cash flows.

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 break-up, 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 by 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 Statement of Financial Position. Major capital expenditures are frequently tied to long-term contracts to minimize the risk of capital not being recovered on a timely basis. Additionally the Company is in the process of diversifying geographically, into the United States so that the results of the Company are not as closely tied to the Canadian market.

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. In the recent downturn, the Company mitigated this labour risk by employing a crew retention program, whereby additional crews were rotated on active rigs, to ensure the Company was well positioned for recovery.

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 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 its ability to do so is dependent 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 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 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. Curtailment or cancellation of these types of activities could 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 dependent 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. While this risk is mitigated by ongoing succession planning, no assurance can be provided that AKITA will be able to retain key management members.

Risk Management

AKITA manages its risks by:

- maintaining a conservative Statement of Financial Position 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 meticulous 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 succession plans to provide for smooth transitions 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.

The effect of extended low commodity prices for crude oil and natural gas has been significant on the drilling industry, as reduced capital spending by oil and gas companies has resulted in fewer opportunities in the drilling industry and significant pricing pressure on day rates. The downward trend in the prices of crude oil and natural gas that began in 2014 has begun to reverse and strengthen in 2017 which has resulted in increased demand. In the WCSB this increase in demand has not been enough to significantly increase day rates, which remain very low. In the United States, especially the Permian basin, increased activity has had a more meaningful impact on day rates.

The Company is anticipating an overall increase in Canadian activity in 2018 over 2017 driven primarily by demand in the heavy oil segment. This increase in overall demand may be offset by decreased demand for dry gas as prices for dry gas continue to challenge the economics of drilling for it. While small pricing increases are anticipated in 2018, however these improvements may still leave day rates well below sustainable rates for the long term for the Canadian drilling industry. There is still an oversupply of rigs in the Canadian market for the current demand, however this may change as drillers move rigs into the more profitable United States market from Canada. The Company's 2018 focus in Canada will be on cost control while also trying to increase day rates.

In the United States, specifically the Permian basin where the Company is concentrating its efforts, opportunities are two-fold: demand continues to increase for drilling rigs; and operators are migrating to higher specification rigs, creating opportunity to satisfy this migration. The Company plans to achieve a rig count in the U.S. this year which will facilitate economies of scale and a scalable entity that will continue to grow into the future.

AKITA is planning a Canadian capital budget of maintenance capital with discretionary rig upgrades depending on customer demand and the expected resulting return. In the U.S. capital spending will be focused on additional rigs that the Company is considering moving to the U.S. to allow for economies of scale.

The Company, with a balance sheet unencumbered by debt and the flexibility of a $50 million credit facility, is well positioned in the current market and optimistic for the future and the opportunities that may arise.

Disclosure Controls and Internal Controls Over Financial Reporting

As of December 31, 2017, 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, 2017.

As of December 31, 2017, 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, 2017.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on

October 1, 2017 and ended December 31, 2017 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, 2017.

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

AKITA and its Joint Ventures' revenue per operating day and AKITA and its Joint Ventures' operating and maintenance expenses per operating day are not recognized GAAP measures under IFRS. Management and certain investors may find "per operating day" measures for AKITA and Joint Ventures' revenue indicate pricing strength while AKITA and Joint Ventures' operating and maintenance expenses per operating day demonstrates a 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 that are utilized can also influence these results.

Funds flow from operations is considered an additional GAAP item 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, equity income from joint ventures, and income tax amounts paid or recovered 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.

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 liquified natural gas (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 International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee but 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.

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statement of income. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39.

AKITA has elected to apply the IFRS 9 standard on a modified retrospective basis on January 1, 2018. The Company has confirmed that there will be no material impact on its consolidated financial statements.

In April 2016, the IASB issued its final amendments to IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

AKITA has elected to apply the IFRS 15 standard on a modified retrospective basis on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers and confirmed there to be no material impact on the Company's consolidated financial statements as a result of the adoption of IFRS 15. The Company will expand its disclosures in the notes to the consolidated financial statements as prescribed by IFRS 15.

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, 2019, and shall be applied retrospectively.

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

Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 7, 2018. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2017 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 1000, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 or at www.sedar.com.

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 DRILLING LTD. | *25 years*

1993

January 1, 1993 | ATCO Drilling is spun out from ATCO Enterprises Inc. into AKITA Drilling Ltd. – a public company listed on the TSE. AKITA focuses on deep horizontal drilling which is a major segment of the Canadian drilling market.

1996

1996 | AKITA grows its rig fleet by investing in deep capacity rigs capable of horizontal drilling.

1999

1999 | AKITA commences its investment in self moving rigs with specialized equipment for heavy oil drilling.

1999

1999 | AKITA signs Joint Venture forming Akita Sahtu in the central Mackenzie Valley. Rig 51 begins operating near Norman Wells, NT.

2000

2000 | AKITA drills 95% of all wells drilled North of 60°. The first Akita Equtak rig was constructed and commissioned, Rig 60 was moved to Swimming Point, NT in the Mackenzie Delta.

2000

2000 | AKITA builds it's first new pad rig, Rig 20 was contracted to drill in western Alberta.

2001

2001 | AKITA, through its Equtak joint ventures, continues to develop its Northern drilling presence by constructing three more Arctic heavy triple rigs, 61, 62 and 63.

2004

2004 | AKITA establishes its Wood Buffalo joint venture with Rig 33 to operate in the SAGD market

2006

2006 | AKITA, working with its joint venture partner Doyon Drilling, operates in Alaska.

2007

2007 | AKITA builds its second generation heavy oil pad rigs, Rig 28 and Rig 29 were the first AC rigs added to the fleet.

2009

2009 | AKITA's pad fleet increases to 8 rigs. Karl Ruud is appointed CEO.

2012

2012 | AKITA invests in its third generation oil sands pad rigs.

2014

2014 | AKITA's $104 million capital program is the largest in the Company's history.

2017

2017 | AKITA reenters the US market with a rig operating in New Mexico. Pad rigs make up 61% of AKITA's rig fleet.

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 impairments. 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 40.

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

Darcy Reynolds
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, 2017 and December 31, 2016 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, 2017 and December 31, 2016 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, Canada
March 7, 2018

Consolidated Statements of Financial Position

$ Thousands		December 31 2017	December 31 2016
ASSETS			
Current Assets			
Cash and cash equivalents	Note 11	$ 560	$ 14,250
Accounts receivable	Note 12	27,024	28,220
Income taxes recoverable		3,076	2,356
Prepaid expenses and other		89	74
		30,749	44,900
Non-Current Assets			
Restricted cash	Note 10	1,525	2,969
Other long-term assets		528	894
Investments in joint ventures	Note 9	4,096	3,252
Property, plant, and equipment	Note 8	170,599	205,892
TOTAL ASSETS		$ 207,497	$ 257,907
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	Note 12	$ 13,696	$ 8,468
Dividends payable	Note 15	1,525	1,525
		15,221	9,993
Non-Current Liabilities			
Financial instruments	Note 12	9	41
Deferred income taxes	Note 6	12,592	23,702
Deferred share units	Note 17	388	222
Pension liability	Note 18	4,832	4,303
Total Liabilities		33,042	38,261
SHAREHOLDERS' EQUITY			
Class A and Class B shares	Note 16	23,871	23,871
Contributed surplus		4,500	4,285
Accumulated other comprehensive loss		(495)	(366)
Retained earnings		146,579	191,856
Total Equity		174,455	219,646
TOTAL LIABILITIES AND EQUITY		$ 207,497	$ 257,907

Approved by the Board,

Director

Director

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

		Year Ended December 31	
$ Thousands except per share amounts		**2017**	2016
REVENUE	Note 4	**$ 71,198**	$ 61,061
COSTS AND EXPENSES			
Operating and maintenance	Note 5	**62,156**	24,169
Depreciation and amortization	Note 8	**27,126**	23,959
Asset write-down and impairment loss	Note 8	**29,123**	—
Selling and administrative	Note 5	**13,659**	12,502
Total Costs and Expenses		**132,064**	60,630
Revenue Less Costs and Expenses		**(60,866)**	431
EQUITY INCOME FROM JOINT VENTURES	Note 9	**6,939**	6,064
OTHER INCOME (LOSS)			
Interest income		**439**	965
Interest expense		**(168)**	(163)
Gain on sale of assets		**194**	90
Net other gains		**232**	148
Total Other Income		**697**	1,040
Income (Loss) Before Income Taxes		**(53,230)**	7,535
Income tax expense (recovery)	Note 6	**(14,053)**	2,206
NET INCOME (LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		**(39,177)**	5,329
Other comprehensive loss		**(129)**	(122)
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		**$ (39,306)**	$ 5,207
NET INCOME (LOSS) PER CLASS A AND CLASS B SHARE	Note 3		
Basic		**$ (2.18)**	$ 0.30
Diluted		**$ (2.18)**	$ 0.30

Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Shareholders of the Company						
$ Thousands	**Class A Non-Voting Shares**	**Class B Common Shares**	**Total Class A and Class B Shares**	**Contributed Surplus**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total Equity**
BALANCE AT DECEMBER 31, 2015	$ 22,505	$ 1,366	$ 23,871	$ 3,946	$ (244)	$ 192,627	$ 220,200
Net income for the year	—	—	—	—	—	5,329	5,329
Remeasurement of the pension liability	—	—	—	—	(122)	—	(122)
Stock options charged to expense	—	—	—	339	—	—	339
Dividends	—	—	—	—	—	(6,100)	(6,100)
BALANCE AT DECEMBER 31, 2016	$ 22,505	$ 1,366	$ 23,871	$ 4,285	$ (366)	$ 191,856	$ 219,646
Net loss for the year	—	—	—	—	—	(39,177)	(39,177)
Remeasurement of pension liability	—	—	—	—	(129)	—	(129)
Stock options charged to expense	—	—	—	215	—	—	215
Dividends	—	—	—	—	—	(6,100)	(6,100)
BALANCE AT DECEMBER 31, 2017	$ 22,505	$ 1,366	$ 23,871	$ 4,500	$ (495)	$ 146,579	$ 174,455

Consolidated Statements of Cash Flows

		Year Ended December 31	
$Thousands		**2017**	2016
OPERATING ACTIVITIES			
Net income (loss)		**$ (39,177)**	$ 5,329
Non-cash items included in net income:			
Depreciation and amortization	Note 8	**27,126**	23,959
Asset decomissioning and impairment loss	Note 8	**29,123**	-
Deferred income tax expense (recovery)	Note 6	**(11,063)**	4,543
Defined benefit pension plan expense	Note 18	**443**	432
Stock options and deferred share units expense	Note 17	**381**	402
Gain on sale of assets		**(194)**	(90)
Unrealized gain on financial guarantee contracts		**(32)**	(75)
Funds flow from operations		**6,607**	34,500
Change in non-cash working capital	Note 13	**6,269**	(17,405)
Equity income from joint ventures	Note 9	**(6,939)**	(6,064)
Post-employment benefits		**(142)**	(60)
Interest paid		**(1)**	(2)
Current income tax recovery	Note 6	**(2,990)**	(2,337)
Income tax recovered		**2,270**	3,260
Net Cash from Operating Activities		**5,074**	11,892
INVESTING ACTIVITIES			
Capital expenditures	Note 8	**(20,569)**	(13,193)
Change in non-cash working capital	Note 13	**190**	2,418
Distributions from investments in joint ventures	Note 9	**6,095**	6,753
Change in cash restricted for loan guarantees		**1,444**	3,009
Proceeds on sale of assets		**221**	202
Net Cash used in Investing Activities		**(12,619)**	(811)
FINANCING ACTIVITIES			
Dividends paid	Note 15	**(6,100)**	(6,100)
Loan commitment fee paid		**(45)**	(100)
Net Cash used in Financing Activities		**(6,145)**	(6,200)
Increase (Decrease) in Cash and Cash Equivalents		**(13,690)**	4,881
Cash and cash equivalents, beginning of year		**14,250**	9,369
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 560**	$ 14,250

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.

NOTES CONTENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and December 31, 2016

BUSINESS AND ENVIRONMENT

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company" or "AKITA") provide contract drilling services, primarily to the oil and gas industry. The Company owns and operates 28 drilling rigs (26.75 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 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. The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

2. Basis of Preparation

The consolidated financial statements for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared under the historical cost convention, except as specifically noted within these notes.

These consolidated financial statements were approved by the Company's Board of Directors on March 7, 2018.

These consolidated financial statements are presented in Canadian dollars which is the Company's functional currency.

The financial statements of the Company consolidate the accounts of AKITA and its subsidiaries which are entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases. Inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

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.

The preparation of these consolidated financial statements requires management to make estimates and judgments. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Actual results could differ materially from these estimates. Estimates and judgments which are material to the consolidated financial statements are found in the following notes:

- Note 6 - Income Taxes
- Note 8 - Property, Plant and Equipment
- Note 18 – Employee Future Benefits

RESULTS FOR THE YEAR

3. Net Income (Loss) per Share

Basic earnings per share 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.

	Year Ended	
	December 31 2017	December 31 2016
Net income (loss) ($Thousands)	**$ (39,177)**	$ 5,329
Weighted average outstanding shares	**17,945,661**	17,945,661
Incremental shares for diluted earnings	**—**	11,450
Weighted average outstanding shares for earnings per share - diluted	**17,945,661**	17,957,111
Earnings (loss) per share - basic	**$ (2.18)**	$ 0.30
Earnings (loss) per share - diluted	**$ (2.18)**	$ 0.30

For the year ended December 31, 2017, 779,500 of the outstanding shares that would have been issued under the Stock Option Plan were excluded in calculating the weighted average number of diluted shares as the Company incurred a net loss during the year and therefore the shares were considered anti-dilutive.

4. Revenue

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Contract revenue resulting from daywork contracts is recorded based upon the passage of time. The receipt of unearned contract revenue is recorded as deferred revenue until the contracted passage of time has occurred.

Contract cancellation revenue is recognized when an amount has been agreed upon by both parties to the contract, collection is probable, and the Company does not have any further services to render in order to earn the estimated revenue.

Revenue is comprised of the following:

	Year Ended	
$Thousands	**December 31 2017**	December 31 2016
Contract drilling services	**$ 71,198**	$ 32,811
Contract cancellation revenue	**—**	28,250
Total revenue	**$ 71,198**	$ 61,061

Significant Customers

During 2017, two customers (2016 – 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.

5. 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 their nature:

	Year Ended	
$Thousands	**December 31 2017**	December 31 2016
EXPENSES		
Salaries, wages and benefits	**$ 48,983**	$ 26,735
Materials and supplies	**7,408**	1,029
Repairs and maintenance	**13,377**	4,109
External services and facilities	**6,047**	4,798
Total expenses	**$ 75,815**	$ 36,671
ALLOCATED TO:		
Operating and maintenance	**$ 62,156**	$ 24,169
Selling and administrative	**13,659**	12,502
Total expenses	**$ 75,815**	$ 36,671

6. Income Taxes

Income taxes are comprised of current and deferred income taxes.

Current taxes are calculated using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are measured using tax rates that are enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset is realized or the liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Income taxes are comprised of the following:

	Year Ended	
$Thousands	**December 31 2017**	December 31 2016
Current tax recovery	**$ (2,990)**	$ (2,337)
Deferred tax expense (recovery)	**(11,063)**	4,543
Total income tax expense (recovery)	**$ (14,053)**	$ 2,206

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 26.83% (2016 – 26.92%) to the reported tax expense (recovery). The rate decrease is due to more of the Company's revenue being earned in lower tax rate jurisdictions. 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 financial statements.

	Year Ended	
$Thousands	**December 31 2017**	December 31 2016
Income (loss) before income taxes	**$ (53,230)**	$ 7,535
Expected income tax at the statutory rate	**(14,281)**	2,029
Add (deduct):		
Change in income tax rates	**(97)**	130
Permanent differences	**107**	134
Jurisdictional rate difference	**(20)**	—
Rate difference on loss carryback	**168**	—
Uncertain tax provision	**71**	—
Return to provision adjustment	**132**	61
Other	**(133)**	(148)
Total income tax expense (recovery)	**$ (14,053)**	$ 2,206

The deferred tax balance consists of the following:

Deferred Income Taxes $Thousands		Property, Plant and Equipment		Defined Benefit Pension Plan Benefits		Other		Total
Balance as at December 31, 2015	$	19,700	$	(1,030)	$	533	$	19,203
Charged (credited) to net income		4,686		(109)		(34)		4,543
Credited to other comprehensive loss		—		(44)		—		(44)
Balance as at December 31, 2016		24,386		(1,183)		499		23,702
Credited to net income		**(10,848)**		**(89)**		**(126)**		**(11,063)**
Credited to other comprehensive income		**—**		**(47)**		**—**		**(47)**
Balance as at December 31, 2017	**$**	**13,538**	**$**	**(1,319)**	**$**	**373**	**$**	**12,592**

Significant Estimates and Judgments – Deferred Income Taxes

The Company makes estimates and judgments relating to the measurement of deferred income taxes, including future tax rates, timing of reversals of temporary timing differences and the anticipated tax rules that will be in place when timing differences reverse.

7. 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 related to 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. At December 31, 2017, the Company was setting up its United States operations and therefore had not fully commenced operations in the United States segment.

LONG TERM ASSETS

8. Property, Plant and Equipment

Property, plant and equipment are recognized 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.

Significant Estimates and Judgments – Useful Lives of Drilling Rigs

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

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.

	Depreciation Method	Depreciation Rates
Drilling Rigs	Unit-of-production	Average of 3,600 operating days
Major inspection and overhaul expenditures	Straight-line	3 years
Drill pipe and other ancillary drilling equipment	Straight-line	2 - 17 years
Furniture, fixtures and equipment	Straight-line	10 years
Buildings	Declining balance	4% to 10% per annum

Management makes significant estimates relating to the useful lives of drilling rigs. 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, 2017, drilling rig depreciation could be either increased or decreased by $2,597,000 (2016 - $2,268,000).

Property, Plant and Equipment Continuity

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2015	$ 4,302	$ 406,062	$ 8,314	$ 418,678
Additions	—	13,066	127	13,193
Disposals	—	(13,193)	(477)	(13,670)
Balance as at December 31, 2016	4,302	405,935	7,964	418,201
Additions	**—**	**20,307**	**262**	**20,569**
Disposals	**—**	**(20,817)**	**(129)**	**(20,946)**
Asset write-downs and impairment loss	**—**	**(37,908)**	**—**	**(37,908)**
Balance as at December 31, 2017	**$ 4,302**	**$ 367,517**	**$ 8,097**	**$ 379,916**

Accumulated Depreciation $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2015	$ 1,273	$ 194,446	$ 6,312	$ 202,031
Disposals	—	(13,088)	(469)	(13,557)
Depreciation expense	78	22,828	929	23,835
Balance as at December 31, 2016	1,351	204,186	6,772	212,309
Disposals	**—**	**(20,799)**	**(119)**	**(20,918)**
Depreciation expense	**73**	**25,971**	**667**	**26,711**
Asset write-downs and impairment loss	**—**	**(8,785)**	**—**	**(8,785)**
Balance as at December 31, 2017	**$ 1,424**	**$ 200,573**	**$ 7,320**	**$ 209,317**

Net Book Value $Thousands		Land and Buildings		Drilling Rigs		Other		Total
As at December 31, 2015	$	3,029	$	211,616	$	2,002	$	216,647
As at December 31, 2016	$	2,951	$	201,749	$	1,192	$	205,892
As at December 31, 2017	**$**	**2,878**	**$**	**166,944**	**$**	**777**	**$**	**170,599**

At December 31, 2017, the Company had $16,000 in Property, Plant and Equipment that was not being depreciated, as these assets were under construction (December 31, 2016 – $2,420,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $415,000 for the year ended December 31, 2017 (2016 - $124,000).

Asset Write-down and Impairment of Property, Plant and Equipment

During 2017 the Company recorded asset write-downs of $13,123,000 and asset impairments of $16,000,000.

In the fourth quarter of 2017 the Company performed a detailed review of its property, plant and equipment in light of forecasted low demand for drilling rigs in the Western Canadian Sedimentary Basin. The review resulted in a non-cash asset decommissioning expense of $13,123,000 (2016 – nil) relating to older spare equipment with uncertain future value.

International Accounting Standard 36, “Impairment of Assets”, requires an entity to consider both internal and external factors when assessing whether there are indicators of asset impairment at the end of each reporting period. While the Company did not determine any internal indicators of impairment at December 31, 2017, it did determine one external indicator of impairment at that date: the lack of an increase in market rates in the drilling industry despite both increases to drilling activity and oil prices over the prior year. The resulting lower drilling rates for longer forecast prompted the Company to perform an impairment analysis on its cash generating units ("CGU’s") which are comprimised of:

- Hydraulic Single Rigs;
- Heavy Single Rigs;
- Tele-Double Rigs;
- Heavy Triple Rigs;
- A.C. Tele-Double Pad Rigs;
- A.C. Oil Sands Pad Rigs;
- D.C. Pad Rigs; and
- A.C. Deep Gas Pad Rigs.

As at December 31, 2017, the recoverable amounts of these CGU’s were determined as the higher of fair value less costs of disposal and the value-in-use basis.

Fair value less costs of disposal was determined through the use of appraisals prepared in December 2017 by independent third party valuation experts.

Value-in-use was calculated using the discounted cash flow for each CGU using the Company’s 2018 budget and business plan as well as internal forecasts as the bases for the calculation of discounted cash flows.

These tests indicated that certain of the Company’s CGU’s carrying amounts exceeded their recoverable amounts resulting in impairment losses in 2017 of $16,000,000 (2016 – nil).

The amounts in excess of the recoverable amounts for each of the Company's impaired CGUs at December 31, 2017 were as follows:

Cash Generating Unit	Impairment Amount	Basis for Recoverable Amount
Hydraulic Single Rigs	$ 2,500,000	Fair value less costs to dispose
Heavy Single Rigs	1,000,000	Value-in-use
Tele-Double Rigs	3,500,000	Fair value less costs to dispose
A.C. Deep Gas Pad Rigs	8,000,000	Fair value less costs to dispose
D.C. Pad Rigs	1,000,000	Fair value less costs to dispose
Total asset impairment	$ 16,000,000	

The assumptions used in the value-in-use impairment tests were based on the Company's Board approved 2018 budget and business plan covering a three year period and applied an average growth rate ranging from 0% to 5% over a 10 year period depending on the CGU being analyzed. In forecasting its projected cash flows the Company assumed that current market conditions will persist into the future. The Company assumed a pre-tax discount rate of 13%, in order to calculate the present value of projected cash flows. Determination of this discount rate included analysis of the cost of debt and equity for the Company and the Canadian drilling industry incorporating a risk premium based on current market conditions. This valuation has a fair value hierarchy of Level 3.

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:

- Reduced future revenue assumptions by 10%;
- Increased inflation for cash outflows to 5%; and
- Increased the pre-tax discount rate from 13% to 16%.

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 $680,000 to $13,800,000. As the base case test represented management's best estimates, these sensitivity reductions were not included in the asset impairment loss reported.

9. Investments in Joint Ventures

The Company conducts certain rig operations via joint ventures with Aboriginal or First Nations partners whereby rig assets are jointly owned. Currently, there are 13 different Aboriginal or First Nations groups with equity investments in five 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 accounting policies of the joint ventures are consistent with the policies described herein.

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 of accounting whereby the Company's share of individual assets and liabilities are recognized as an investment in the joint venture account on the consolidated statements of financial position, and revenues and expenses are recognized with net earnings as a gain/loss from investment in the joint venture account on the consolidated statements of income and comprehensive income.

The following table lists the Company's active joint ventures.

Active Joint Ventures During the Period	Operating Location	Ownership Interest
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 Equtak Joint Venture 61	Canada	50%

Continuity of Investments in Joint Ventures

$Thousands	Investments in Joint Ventures
Balance as at December 31, 2015	$ 3,941
Net income for the year ended December 31, 2016	6,064
Distributions for the year ended December 31, 2016	(5,247)
Divestiture of investments in joint ventures	(1,506)
Balance as at December 31, 2016	3,252
Net income for the year ended December 31, 2017	**6,939**
Distributions for the year ended December 31, 2017	**(6,095)**
Balance as at December 31, 2017	**$ 4,096**

Summarized Joint Venture Financial Information

This summarized financial information is a reconciliation of the Company's investments in joint ventures to the aggregate of the amounts included in the IFRS financial statements of the joint ventures which include both the Company's and joint venture partners' interests.

	December 31, 2017			December 31, 2016		
$Thousands	**AKITA %**	**JV Partner %**	**Total**	AKITA %	JV Partner %	Total
Cash	**$ 1,027**	**$ 217**	**$ 1,244**	$ 1,297	$ 357	$ 1,654
Other current assets	**5,622**	**1,193**	**6,815**	3,861	887	4,748
Non-current assets	**55**	**—**	**55**	55	—	55
Total assets	**6,704**	**1,410**	**8,114**	5,213	1,244	6,457
Total liabilities	**2,608**	**555**	**3,163**	1,961	467	2,428
Net assets	**$ 4,096**	**$ 855**	**$ 4,951**	$ 3,252	$ 777	$ 4,029

	Year Ended December 31, 2017			Year Ended December 31, 2016		
$Thousands	**AKITA %**	**JV Partner %**	**Total**	AKITA %	JV Partner %	Total
Revenue	**$ 26,513**	**$ 5,915**	**$ 32,428**	$ 16,970	$ 3,429	$ 20,399
Net income and comprehensive income	**$ 6,939**	**$ 1,331**	**$ 8,270**	$ 6,064	$ 1,131	$ 7,195

10. Restricted Cash

Restricted cash is comprised of the following:

$Thousands		December 31 2017		December 31 2016
Balance held in term deposits	**$**	**1,525**	$	2,969

During 2014, the Company guaranteed bank loans made to joint venture partners totaling $5,648,000 for a period of four years. During 2017, the Company has provided an assignment of monies on deposit totaling $1,525,000 with respect to these loans.

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

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

WORKING CAPITAL

11. Cash and Cash Equivalents

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

Cash and cash equivalents is comprised of the following:

$Thousands		December 31 2017		December 31 2016
Cash	**$**	**560**	$	5,729
Short-term bank deposits		**—**		8,521
Cash and cash equivalents	**$**	**560**	$	14,250

12. Financial Instruments

Recognition and measurement

The Company's financial assets and liabilities include cash and cash equivalents, 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.

The Company discloses its financial instruments within a hierarchy prioritizing the inputs to fair value measurements at the following three levels:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

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. 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 accounts receivable.

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. Derivatives are also categorized as held for trading unless they are designated as hedges.

   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 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, financial liabilities at amortized cost are measured at amortized cost using the effective interest method.

   The Company's financial liabilities at amortized cost include accounts payable and accrued liabilities and its operating loan facility.

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

Impairment of financial assets

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

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

i. Significant financial difficulty of the obligor;

ii. Delinquencies in interest or principal payments; and

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

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

Operating Loan Facility

The Company has an operating loan facility with its principal banker. The facility totals $50,000,000 with the term ending in 2019.

At December 31, 2017, and December 31, 2016, the Company had not drawn on its loan facility.

The interest rate on the facility is 1.25% over prime interest rates or 2.50% 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.

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

Financial guarantee contracts

The Company guarantees 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 $9,000 (December 31, 2016 - $41,000). 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, liquidity risk, commodity risk, foreign currency risk and interest rate risk.

Credit risk

The credit risk associated with accounts receivable is generally considered low since the Company has conservative 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.

In 2016, one of AKITA's customers cancelled a multi-year contract that was scheduled to continue to 2019. To date, AKITA has received $19,372,000 in contract cancellation revenue with the final payment of $10,641,000 included in the December 31, 2017 accounts receivable balance.

The Company's accounts receivable shows no significant credit risk exposure in the balances outstanding at December 31, 2017, and December 31, 2016. Terms of the Company's contracts generally require payment within 30 days.

$Thousands	**December 31 2017**	December 31 2016
Within 30 days	**$ 11,459**	$ 6,726
31 to 60 days	**3,908**	1,203
61 to 90 days	**846**	269
Over 90 days	**220**	4
Allowance for doubtful accounts	**(50)**	(50)
Total trade accounts receivable	**16,383**	8,152
Contract cancellation receivable	**10,641**	20,068
Accounts receivable	**$ 27,024**	$ 28,220

Liquidity risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2017 and December 31, 2016, this risk was limited by having positive cash flows from operations and a banking facility sufficient to meet all current liabilities.

Commodity risk

The Company is exposed to the effects of fluctuating crude oil and natural gas prices as well as the resultant changes in the exploration and development budgets of its customers.

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.

Interest rate risk

The Company is exposed to interest rate risk through its operating loan facility and through its investment in short-term bank deposits.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities is comprised of the following:

$Thousands	December 31 2017		December 31 2016	
Trade payables	$	3,511	$	4,306
Statutory liabilities		694		3,791
Accrued expenses		9,401		229
Post-employment benefits		90		142
Accounts payable and accrued liabilities	**$**	**13,696**	$	8,468

13. Change in Non-Cash Working Capital

	Year Ended			
$Thousands	December 31 2017		December 31 2016	
Change in non-cash working capital:				
Accounts receivable	$	1,196	$	(13,910)
Prepaid expenses and other		(15)		1
Accounts payable and accrued liabilities		5,278		(1,078)
Change in non-cash working capital	**$**	**6,459**	$	(14,987)
Pertaining to:				
Operating activities	$	6,269	$	(17,405)
Investing activities		190		2,418
Change in non-cash working capital	**$**	**6,459**	$	(14,987)

DEBT AND EQUITY

14. 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 opportunities.

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.

15. Dividends per Share

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.

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

Declaration Date	Payment Date		Per Share		Total ($000's)
March, 2016	April, 2016	$	0.085	$	1,525
May, 2016	July, 2016	$	0.085	$	1,525
August, 2016	October, 2016	$	0.085	$	1,525
November, 2016	January, 2017	$	0.085	$	1,525
March, 2017	**April, 2017**	**$**	**0.085**	**$**	**1,525**
May, 2017	**July, 2017**	**$**	**0.085**	**$**	**1,525**
August, 2017	**October, 2017**	**$**	**0.085**	**$**	**1,525**
November, 2017	**January, 2018**	**$**	**0.085**	**$**	**1,525**

16. 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

The shares outstanding at December 31, 2017 and December 31, 2016 are:

(Number of shares)	Class A Non-Voting	Class B Common	Total
Shares outstanding	**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 shareholders 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 shareholders of Class A Non-Voting shares, and shareholders 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 shareholders of Class A Non-Voting shares will be entitled to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common share pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

Incremental costs attributable to the issue of new shares or options are recorded as a reduction in equity, net of income taxes.

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.

The Company did not establish a normal course issuer bid in 2017 or 2016.

PERSONNEL

17. 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, DSUs or SARs expected to vest with the fair value of one option, DSU or SAR as of the grant date.

Stock options:

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

(Number of options)	December 31 2017	December 31 2016
Reserved under the current stock option plan [(1)]	**3,100,000**	3,100,000
Balance at beginning of year	**818,500**	1,016,000
Expired during the year	**101,000**	—
Granted during the year	**(97,500)**	(197,500)
Available for future issuance	**822,000**	818,500

(1) The number of shares reserved under the current stock option plan (May 14, 1998 to present) was revised in May, 2017 to include the shares reserved under the Company's initial stock option plan (January 1, 1993 to May 14, 1998).

A summary of the status of the Company's stock options as of December 31, 2017, and 2016, and changes during the years ended on those dates is presented below:

	2017			2016		
	Options		Weighted Average Exercise Price	Options		Weighted Average Exercise Price
Options outstanding at January 1	**879,500**	**$**	**10.83**	682,000	$	11.90
Options granted	**97,500**	**$**	**8.26**	197,500		$7.13
Options expired	**(101,000)**	**$**	**11.67**	—	$	—
Options outstanding at December 31	**876,000**	**$**	**10.57**	879,500	$	10.83
Options exercisable at December 31	**620,500**	**$**	**11.16**	586,000	$	11.32

The following table summarizes outstanding stock options at December 31:

		2017			2016		
Vesting Period (Years)	Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
5	$ 9.87	**130,000**	**2.2**	**130,000**	150,000	3.2	150,000
3	$ 10.32	**—**	**—**	**—**	6,000	4.2	6,000
5	$ 10.32	**76,000**	**3.2**	**76,000**	91,000	4.2	91,000
5	$ 10.86	**82,500**	**4.2**	**82,500**	97,500	5.2	97,500
5	$ 13.81	**87,500**	**5.7**	**87,500**	102,500	6.7	82,000
5	$ 16.02	**115,000**	**6.7**	**92,000**	130,000	7.7	78,000
5	$ 10.28	**90,000**	**7.2**	**54,000**	105,000	8.2	42,000
5	$ 7.13	**197,500**	**8.3**	**79,000**	197,500	9.3	39,500
5	$ 8.26	**97,500**	**9.3**	**19,500**			

Deferred Share Units:

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.

A summary of the status of the Company's deferred share unit plan as of December 31, 2017, and 2016, and changes during the years ended on those dates is presented below:

	2017		2016	
	Deferred Share Units (#)	**Fair Value ($000's)**	Deferred Share Units (#)	Fair Value ($000's)
Deferred share units outstanding at January 1	**32,402**	**$ 274**	31,083	$ 211
Granted during the year	**24,705**	**210**	—	—
Redeemed during the year	**(6,134)**	**(52)**	—	—
Issued in lieu of dividends	**1,759**	**13**	1,319	10
Change in fair value	—	**(57)**	—	53
Deferred share units outstanding at December 31	**52,732**	**$ 388**	32,402	$ 274

Deferred share units allocated to:	2017		2016	
Accounts payable and accrued liabilities	—	**$ —**	6,134	$ 52
Non-current liabilities	**52,732**	**388**	26,268	222
Deferred share units outstanding at December 31	**52,732**	**$ 388**	32,402	$ 274

Share Appreciation Rights:

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.

Share-based Compensation Expense

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.

Share based compensation expense consists of the following:

	Year Ended			
$Thousands		**December 31 2017**		December 31 2016
Stock option expense	**$**	**215**	$	339
Deferred share unit expense		**166**		63
Total share-based compensation expense	**$**	**381**	$	402

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.

		2017		2016
Risk-free interest rate		**1.10%**		0.75%
Expected volatility		**32.0%**		31.0%
Dividends yield rate		**4.20%**		4.03%
Option life		**5.4 years**		5.4 years
Weighted average share price	**$**	**8.26**	$	7.13
Forfeiture rate		**0.00%**		0.00%
Fair value of options	**$**	**1.78**	$	1.47

18. 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 Company's 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's defined contribution pension 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 current and retired 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. 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 15, 2018, and was utilized in measuring the December 31, 2017, balances.

The defined benefit pension plan liability 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 is comprised of the interest on the net defined benefit liability calculated using a discount rate based on market yields on high quality bonds and the current service cost. 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.

$Thousands		2017		2016
Actuarial present value of defined benefit obligation at January 1	$	4,393	$	3,854
Interest cost		166		160
Current service cost		277		272
Benefits paid		(90)		(60)
Unrealized actuarial loss		176		167
Actuarial present value of defined benefit obligation at December 31	$	4,922	$	4,393

Pension liability allocated to:				
Accounts payable and accrued liabilities	$	90	$	90
Non-current liabilities		4,832		4,303
Pension liability outstanding at December 31	$	4,922	$	4,393

Key Assumptions:

	Year Ended	
	December 31 2017	December 31 2016
Discount rate at beginning of the year	3.6%	3.9%
Anticipated retirement age of plan members	61 to 65 years	61 to 65 years

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

	Year Ended			
$Thousands		December 31 2017		December 31 2016
Defined benefit plan				
Interest cost	$	166	$	160
Service cost		277		272
Expense for defined benefit plan		443		432
Expense for defined contribution plan		2,233		1,496
Total pension expense	$	2,676	$	1,928

Significant Estimates and Judgments – Defined Benefit Pension Liability

Significant estimates used in the preparation of AKITA's financial statements relate to the measurement of the non-current defined benefit pension liability for selected current and retired employees that was recorded as $4,832,000 at December 31, 2017 (December 31, 2016 - $4,303,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's defined benefit pension expense and liability. At December 31, 2017, a key assumption is the discount rate of 3.3% (2016 – 3.6%). From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $693,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a $570,000 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 $89,000. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the measurement of the Company's defined benefit pension liability.

OTHER NOTES

19. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2017, the Company had one rig with a multi-year contract which is due to expire in 2018.

The Company has 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 a cost of approximately $810,000 per year. This lease expires on December 31, 2019.

At December 31, 2017, the Company had capital expenditure commitments of $2,532,000 due in 2018 (2016 – $827,000 due in 2017).

20. Related Party Transactions

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

a) ATCO Group and Spruce Meadows

The Company is related to the ATCO Group of companies and to Spruce Meadows through its controlling shareholder (see Note 1). The transactions and period end balances with those affiliates are presented below.

	Year Ended	
$Thousands	**December 31 2017**	December 31 2016
Revenue (computer services, rent)	**$ 84**	$ 84
Purchases		
Operating (sponsorship and advertising (Note 19), other	**341**	351
Selling and administrative	**53**	1
Year-end accounts payable	**1**	5

b) Joint ventures and joint venture partners

The Company is related to its joint ventures. The joint ventures' transactions and period balances with AKITA are presented below:

	Year Ended	
$Thousands	**December 31 2017**	December 31 2016
Revenue	**$ 6**	$ 111
Operating costs	**4,736**	2,241
Selling and administrative costs	**531**	289
Year-end accounts payable	**1,044**	1,180

c) Legal fees

The Company incurred legal fees of $107,000 (2016 - $42,000) during the year for services related to various legal matters with a law firm of which a director of the Company was a partner at December 31, 2017. At December 31, 2017, $22,000 (December 31, 2016 - $1,200) of this amount was included in accounts payable.

d) Key management compensation

Key management includes the officers and directors of the Company. The compensation paid or payable to key management for services in the capacity as either officers or directors is shown below:

	Year Ended	
$Thousands	**December 31 2017**	December 31 2016
Salaries, directors' fees and other short-term benefits	**$ 1,784**	$ 2,022
Post-employment benefits	**550**	544
Share-based payments	**531**	453
Year-end compensation payable	**240**	—

21. Accounting Changes Not Yet Adopted

Certain new or amended standards or interpretations have been issued by the International Accounting Standards Board ("IASB") 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.

IFRS 9 Financial Instruments

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statement of income. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39.

AKITA has elected to apply IFRS 9 on a modified retrospective basis on January 1, 2018. The Company has confirmed that there will be no material impact on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

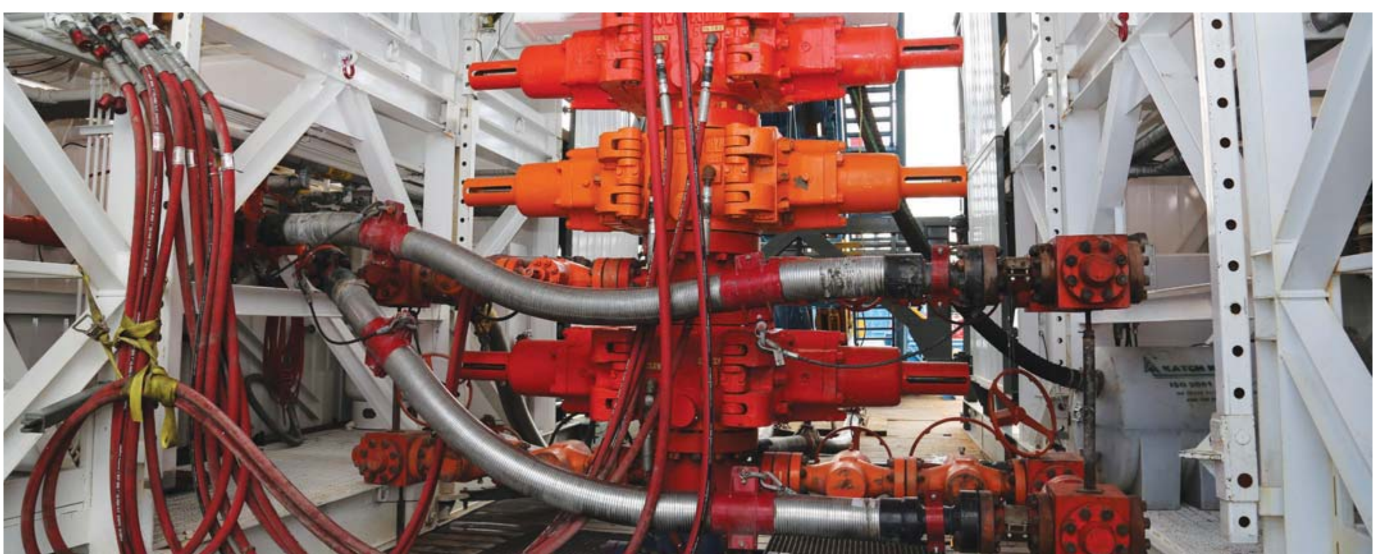
In April 2016, the IASB issued its final amendments to IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

AKITA has elected to apply IFRS 15 on a modified retrospective basis on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers and confirmed there to be no material impact on the Company's consolidated financial statements as a result of the adoption of IFRS 15. The Company will expand its disclosures in the notes to the consolidated financial statements as prescribed by IFRS 15.

IFRS 16 Leases

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, 2019, and shall be applied retrospectively.

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



10 YEAR FINANCIAL REVIEW

(Dollars in thousands, except per share)	Annual Ranking	2017	2016
Summary of Operations			
Revenue	9	$ 71,198	$ 61,061
Income (loss) before income taxes	10	$ (53,230)	$ 7,535
Income tax expense (recovery)	10	$ (14,053)	$ 2,206
Net income (loss)	10	$ (39,177)	$ 5,329
As a percentage of average shareholders' equity	10	(22.5%)	2.4%
Earnings (loss) per Class A and Class B share	10	$ (2.18)	$ 0.30
Funds flow from operations	10	$ 6,607	$ 34,500
As a percentage of average shareholders' equity	10	3.8%	15.7%
Financial Position at Year End			
Working capital (deficiency)	9	$ 15,528	$ 34,907
Current ratio	8	2.02:1	4.49:1
Total assets	10	$ 207,497	$ 257,907
Shareholders' equity	10	$ 174,455	$ 219,646
per share	10	$ 9.72	$ 12.24
Other			
Capital expenditures	6	$ 20,569	$ 13,193
Depreciation and amortization	3	$ 27,126	$ 23,959
Dividends paid	2	$ 6,100	$ 6,100
per share	1	$ 0.34	$ 0.34

Note: Financial information has been calculated under Canadian GAAP for the years 2006 to 2009 and under IFRS for the years 2010 through 2017. Readers should be aware that these two sets of accounting standards are not consistent with each other. Revenue amounts reported for 2012 through 2017 include revenue solely generated by the Company from its wholly owned operations.

2015	2014	2013	2012	2011	2010	2009	2008
$ 112,488	$ 165,274	$ 168,111	$ 203,440	$ 199,934	$ 145,138	$ 106,263	$ 137,246
$ (44,544)	$ 28,121	$ 35,682	$ 38,413	$ 31,762	$ 10,932	$ 11,901	$ 20,133
$ (10,579)	$ 7,042	$ 9,167	$ 9,658	$ 8,409	$ 3,462	$ 3,521	$ 7,147
$ (33,965)	$ 21,079	$ 26,515	$ 28,755	$ 23,353	$ 7,470	$ 8,380	$ 14,847
(14.2%)	8.3%	11.3%	13.5%	12.1%	4.1%	4.2%	7.7%
$ (1.89)	$ 1.17	$ 1.48	$ 1.60	$ 1.29	$ 0.41	$ 0.46	$ 0.81
$ 38,510	$ 56,195	$ 57,619	$ 59,474	$ 42,895	$ 32,798	$ 23,960	$ 34,149
16.0%	22.2%	24.6%	28.0%	22.3%	17.9%	12.0%	17.6%
$ 16,002	$ (5,028)	$ 40,645	$ 31,214	$ 44,265	$ 61,341	$ 69,819	$ 63,089
2.45:1	0.90:1	2.93:1	1.70:1	2.37:1	4.04:1	7.02:1	3.90:1
$ 254,516	$ 340,926	$ 291,748	$ 292,994	$ 247,130	$ 218,587	$ 234,215	$ 242,869
$ 220,200	$ 259,841	$ 245,288	$ 223,998	$ 201,104	$ 183,739	$ 201,446	$ 198,461
$ 12.27	$ 14.48	$ 13.65	$ 12.49	$ 11.15	$ 10.19	$ 11.05	$ 10.89
$ 17,960	$ 103,949	$ 35,113	$ 65,356	$ 54,509	$ 36,293	$ 11,835	$ 14,622
$ 36,748	$ 30,200	$ 26,825	$ 24,342	$ 20,933	$ 24,540	$ 17,476	$ 16,667
$ 6,101	$ 6,015	$ 5,567	$ 5,038	$ 5,066	$ 5,079	$ 5,105	$ 5,111
$ 0.34	$ 0.34	$ 0.32	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28

CORPORATE INFORMATION

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Calgary, Alberta

Harish K. Mohan
Corporate Director
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Vice President,
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Karl A. Ruud
President and
Chief Executive Officer,
AKITA Drilling Ltd.,
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Nancy C. Southern
Chairman, President and
Chief Executive Officer,
ATCO Ltd., Canadian Utilities Limited,
and CU Inc.,
Calgary, Alberta

Linda A. Southern- Heathcott
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President, Team Spruce Meadows Inc.
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Vice Chairman and
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Senior Vice President

Colin A. Dease
Corporate Secretary

Fred O. Hensel
Vice President,
Marketing

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Karl A. Ruud
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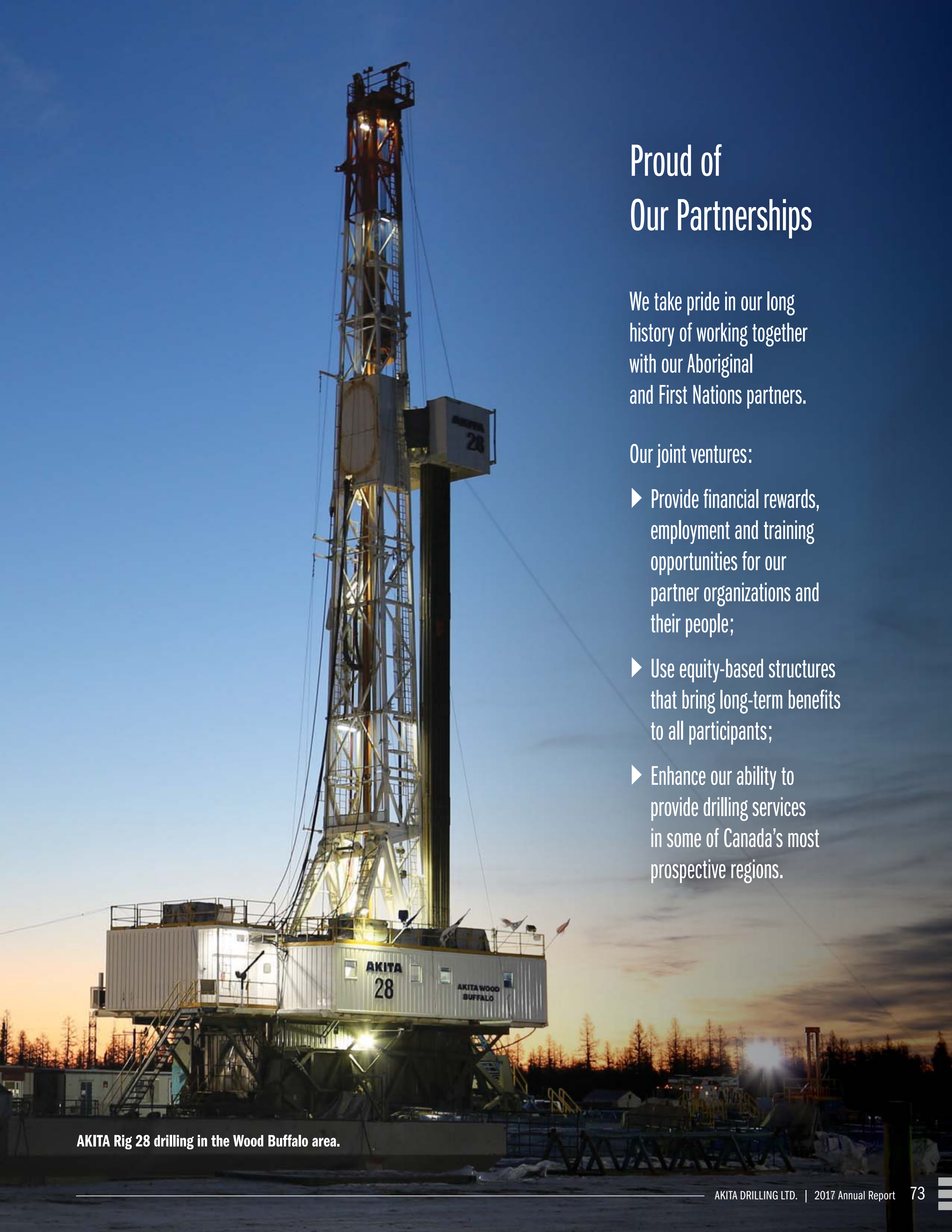
1.800.387.0825

Share Symbol/TSX

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

Website

www.akita-drilling.com



Proud of Our Partnerships

We take pride in our long history of working together with our Aboriginal and First Nations partners.

Our joint ventures:

- Provide financial rewards, employment and training opportunities for our partner organizations and their people;
- Use equity-based structures that bring long-term benefits to all participants;
- Enhance our ability to provide drilling services in some of Canada's most prospective regions.

AKITA Rig 28 drilling in the Wood Buffalo area.

HEAD OFFICE

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