

AKITA

2003 ANNUAL REPORT



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ANNUAL MEETING


The Annual General Meeting of Shareholders will be held at 10:30 a.m. M.D.T. on Thursday May 20, 2004 at the Sheraton Suites, Calgary, 255 Barclay Parade S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

forward-looking statements

From time to time we make written and verbal forward-looking statements. These may be included in the Annual Report, filings with Canadian regulators, in reports to shareholders and in other communications. 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.

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.



Cover Photo: Rig 32 was built in 2003 and is working under a multi-year contract to drill heavy oil wells

corporate profile

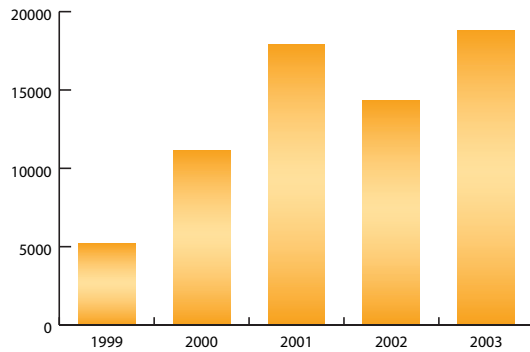


AKITA Drilling Ltd. is a premier oil and gas drilling contractor with operations throughout Western Canada and Canada's Northern Territories. The Company strives to be the industry leader in matters of customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling services, the Company specializes in purpose-built arctic and heavy oil 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 650 people operating 36 drilling rigs in all depth ranges.



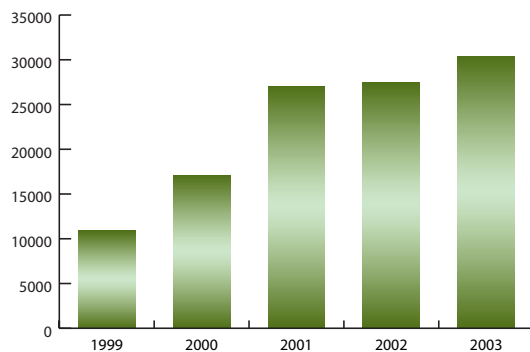
2003 operational performance

NET EARNINGS (\$000's)



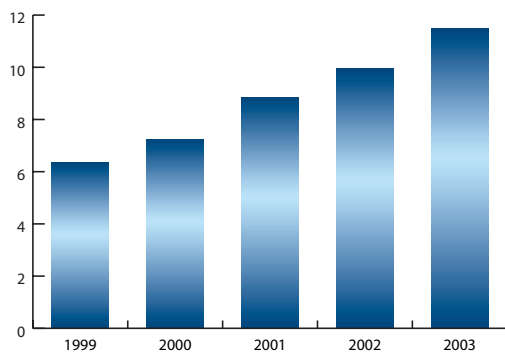
A year of strong oil and gas prices led to higher activity in the overall drilling sector. Coupled with increased day rates, this resulted in AKITA's profitability reaching a record level in 2003. The strength in activity was consistent throughout the year and bodes well for 2004. AKITA has achieved positive earnings in each quarter of its existence.

CASH FLOW (\$000's)



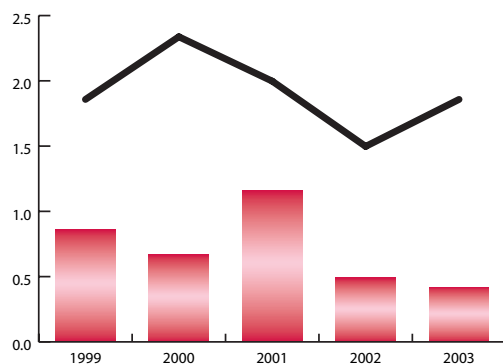
Cash Flow from Operations reached record levels due to strong activity in all quarters of the year, and continuing standby revenues from rigs on long term contracts. Strong cash flow has helped to reinforce the company's commitment to maintain its equipment in superior operating condition, and to capitalize on changing market opportunities.

EQUITY PER SHARE (\$)



Equity per share grew 15.4% on a one year basis, and 13.4% compounded over the past five years.

LOST TIME ACCIDENT FREQUENCY (Per 200,000 hours worked)



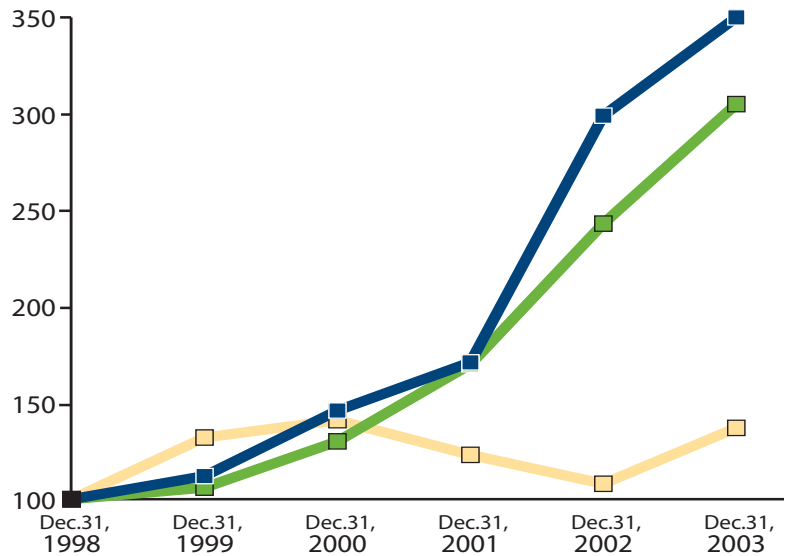
AKITA has consistently and significantly outperformed the industry with respect to safety. In 2003, AKITA's lost time accident frequency rate was the best in its history, and again less than half of the industry average.

■ Industry performance (source: CAODC)
■ AKITA performance

share performance

The graph to the right compares the cumulative return over the last five years on the Class A Non-Voting shares and Class B Common shares of the Company from December 31, 1998 with the cumulative total return of the TSE 300 Stock Index over the same period, assuming reinvestment of dividends.

5 YEAR TOTAL RETURN ON \$100 INVESTMENT



	1998	1999	2000	2001	2002	2003
AKITA Class A	100	112	146	171	299	350
AKITA Class B	100	106	130	170	243	305
TSE 300	100	132	141	123	108	137

SHARE PERFORMANCE		1999	2000	2001	2002	2003
Weighted average number of Class A and Class B shares		9,499,521	9,318,173	9,083,582	9,093,737	9,020,033
Market Prices for Class A Shares	High \$	11.45	\$ 13.00	\$ 16.00	\$ 20.95	\$ 24.65
	Low \$	6.10	\$ 8.00	\$ 10.30	\$ 12.00	\$ 18.75
	Close \$	8.55	\$ 10.80	\$ 12.25	\$ 20.95	\$ 24.16
Volume		2,987,533	3,599,012	2,676,835	2,157,850	1,493,831
Market Prices for Class B Shares	High \$	10.00	\$ 12.00	\$ 16.50	\$ 21.00	\$ 26.00
	Low \$	7.00	\$ 8.00	\$ 11.00	\$ 13.00	\$ 18.70
	Close \$	9.25	\$ 11.00	\$ 14.00	\$ 19.60	\$ 24.25
Volume		2,872	11,082	13,178	8,048	7,951

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 dividends is at the discretion of the Board of Directors and depends upon the financial condition of the Company and other factors.

	1999	2000	2001	2002	2003
Dividends paid per share (\$)	0.28	0.32	0.36	0.36	0.36

letter to the shareowners



Ronald D. Southern,
Chairman of the Board



John B. Hlavka,
President and C.E.O.

Record earnings and cash flow highlighted AKITA's achievements for 2003.

Our earnings for the year ended December 31, 2003 were \$18,822,000 or \$2.09 per share on revenue of \$124,078,000. Comparative figures for 2002 were \$14,345,000 or \$1.58 per share on revenue of \$102,895,000. Cash flow from operations for the current year was \$30,426,000 as compared to \$27,459,000 in 2002.

Overall, 2003 was a stronger year for the Canadian drilling industry than the previous year. AKITA's results were positively affected by increased natural gas prices and, to a lesser extent, higher oil prices. As a result of the gas focus by many of our customers, shallow rigs led the market for the first time in seven years.

AKITA maintains a balanced fleet of rigs - 11 singles, 13 doubles and 12 triples. Consequently, regardless of the market focus for depth, our company is in an ideal position to capitalize on drilling opportunities. Further, AKITA's geographic span ranges from Southwest Saskatchewan to Northeast British Columbia and as far north as the Mackenzie Delta. Our rig utilization in 2003 was 54.7% compared to the industry average of 53.1% and AKITA's utilization of 46.8% in 2002.



Attention to safety training has continually earned our Company one of the lowest accident frequencies in the industry. The 2003 lost time accident frequency of 0.42 accidents per 200,000 hours worked was the best performance in our Company's history. This surpasses the industry average of 1.84 (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors).

In each of our previous four annual reports, we have described to you the unfolding of our Northern strategy. Our strategy, which provides for joint ownership of rigs, training, employment and economic benefits for northern community residents, has resulted in significant contributions to AKITA's positive results in each year. Two years in particular stand out in terms of investment and opportunity growth, those years being 2000 and 2001. In the past two years however, no additional new rigs have been built to augment this segment of our fleet. Although we are confident of additional future need for new rigs in the area, we are uncertain of timing

and have commenced, in addition to other initiatives, a preliminary investigation of complementary northern opportunities.

In addition to experiencing good activity levels in the North during this current drilling season, we were able to capitalize on an opportunity in another focus area – heavy oil. During 2003, AKITA added a second self-propelled pad rig to its fleet. The new rig, which is featured on the cover of this year's annual report, was built at a cost of \$7.9 Million and is currently working under a multi-year contract. AKITA understands the potential of heavy oil drilling and is prepared to employ innovative solutions to expand its heavy oil capabilities if market opportunities warrant the investment.

In addition to heavy oil opportunities, we view coal bed methane (CBM) drilling in Canada as being in its infancy. Although CBM wells currently represent less than 2% of all wells drilled in Canada, the magnitude of coal bed methane reserves and the corresponding additional drilling opportunities are significant.

During 2003, we drilled 101, or approximately one third, of the Canadian wells targeting CBM. Management is preparing plans to determine the best way for AKITA to consolidate its leadership position in this market segment. One of the benefits for development of the CBM resource, from the perspective of a drilling contractor, is the need for more drilling as compared to conventional natural gas.

AKITA continues to have the financial strength to make appropriate investments to meet the challenges of today's evolving marketplace. At December 31, 2003 our Company had \$24.3 Million in working capital including \$ 27.9 Million in cash.

In November 2003, your Board of Directors approved the payment of an increased quarterly dividend to \$0.10 per share. This represents an increase of 11%, calculated on an annual basis. During the year, AKITA made direct contributions to enhance share value through purchases pursuant to our Normal Course Issuer Bid. In 2003, the Company repurchased 140,500 Class A Non-Voting shares (1.7% of the class) at an average price of \$21.31 per share.

In October 2003 the Canadian Association of Oilwell Drilling Contractors prepared an industry drilling forecast for the current year that estimated approximately 18,000 wells will be drilled compared to 19,851 wells actually drilled in 2003. This estimate was based on average commodity price assumptions of US \$27 per barrel for oil and US \$4.75 per mcf for natural gas. To date, these underlying assumptions have understated actual commodity prices. Your management anticipates that this forecast for drilling activity will be exceeded if commodity prices remain at similarly higher levels.

In the longer term, we are similarly optimistic. Our Company has positioned itself strategically in Canada's North. Our fleet has a mix of assets that focuses on the future in terms of deep and shallow natural gas and the enormous potential of heavy oil.

We would like to compliment our employees for their commitment to making 2003 a year of outstanding achievements, especially from financial and safe operating perspectives. In addition, we thank our customers, partners, suppliers and shareowners for their support. Finally, a very special thanks to each of our directors as they continue to provide wise counsel in the governing of your company.

On behalf of the Board of Directors.



Ronald D. Southern
Chairman of the Board



John B. Hlavka
President and C.E.O.

March 22, 2004



northern operations

AKITA's Northern Partners



Rig 62 - Tuktoyaktuk, NT



northern operations

AKITA's northern operations are conducted through several different joint ventures with each joint venture operating in a specific geographic region. These arrangements have been in place for several years and have provided significant benefits to AKITA and its joint venture partners.



Remoteness ... Logistics ... Harsh yet fragile environment ... Short drilling season – These are a few of the realities of drilling in Canada's North. Yet, dealing with these barriers in creative ways has enabled AKITA to develop a unique place working in the North.

In 2000, AKITA constructed the first of four specialty rigs designed to help explore in the extreme environments located in the Mackenzie Delta. These rigs were designed to minimize weight per load, thereby allowing early season rig movement and extending the potential drilling season. Special attention was also made to ensure heat generated by

the rig would be used to advantage and not transmitted into the fragile permafrost. Additional features exist to ensure that AKITA has "state of the art" equipment for arctic applications.

AKITA also has a shallower capacity rig that has been fully retrofitted to meet arctic requirements as well as additional equipment that is capable of operating in harsh northern climates.

AKITA had seven rigs working in its joint venture regions during 2003. Should the Mackenzie Valley Pipeline be built, it would provide a strong stimulus to increase northern drilling activity.

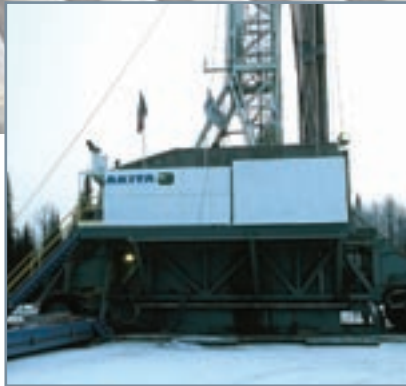
heavy oil

■ Western Canada's
Major Oil Sands Deposits



heavy oil

In 2003, AKITA added its second self-propelled heavy oil pad rig to the fleet. During the year, the Company drilled 169 heavy oil pad wells. In addition to heavy oil projects currently in place, a number of senior oil and gas producers have expressed interest in developing new major heavy oil projects in Alberta.



Drilling heavy oil wells currently affects AKITA's operations in two important ways. First, smaller single sized rigs are employed to delineate prospective locations for further development drilling. In 2003, this represented 55% of heavy oil wells drilled by the Company. Additionally, AKITA has two specialty pad rigs that are self-moving within each pad.

Much of AKITA's focus with respect to heavy oil drilling has been in the development of pad style rigs. These rigs, unlike conventional equipment, are designed to

utilize a "centralized support system" that remains in one location, while the rest of the components move within the pad, drilling one well after another. These unique designs create an improvement in efficiency that results in lower costs for our customers coupled with a high number of drilling days for AKITA.

As a result of recently announced plans by a number of senior oil and gas producers, AKITA anticipates continuing steady demand for its pad rigs.

conventional natural gas & oil

Western Canada Sedimentary Basin



Rig #47 - Nordegg, AB



conventional natural gas & oil

During 2003, natural gas exploration and development dominated the industry as more than three gas wells were drilled in Western Canada for every oil well completed. Natural gas is often located in shallow horizons, as are typically found in southern Alberta and Saskatchewan and in deeper formations, generally associated with the foothills and some mountain regions of Alberta, British Columbia, Northwest and Yukon Territories.



AKITA operates a well-maintained, diversified and efficient fleet of 36 drilling rigs within the Western Canadian Sedimentary Basin and Canada's northern territories. AKITA's 11 singles and 12 triples represent 64% of its fleet and ensure particularly favourable exposure to natural gas drilling.

AKITA considers conventional natural gas drilling to be a core segment of its business and has constructed 10 new or rebuilt rigs in the past seven years that have drilling capacities that are targeted to meet this demand. In addition, the Company has ensured that other rigs in the fleet are also maintained in a first class manner and include all necessary equipment to perform efficiently and competitively. For example, 10 of AKITA's 12 triples have top drives mounted on them.

Although deep drilling represented the slowest market segment during 2003, AKITA remains confident that both shallow and deep conventional gas drilling will continue to be the most significant market segments for the Company for the foreseeable future.

Conventional oil drilling has been on a general decline over most of the past decade, as the Western Canadian Sedimentary Basin appears to be maturing. Nevertheless, AKITA continues to participate in oil drilling since it is complementary to and provides a logical diversification from natural gas activities.

other initiatives

Western Canada Coal Distribution



other initiatives

During the last two years significant industry discussion has surfaced regarding drilling and producing coal bed methane wells in Canada. In the United States, coal bed methane currently represents over 8% of all natural gas produced (source: Energy Information Administration for 2002). By contrast, approximately 300 coal bed wells (less than 2% of total wells drilled in 2003) were drilled in all of Canada for the year 2003. Of these, AKITA drilled 101 wells.



Coal bed methane represents one of management's current areas of interest for the Company. Although Canadian development of this resource is in its infancy, AKITA recognizes that, as in the United States, great potential exists to develop this resource, especially as a result of overall declines of conventional natural gas fields.

AKITA has allocated a portion of its 2004 capital budget to expand and refine its coal bed methane drilling capabilities.

AKITA anticipates coal bed methane drilling will expand over the next several years given natural gas prices that are similar to, or higher than current prices (i.e. Aeco prices of \$5 to \$6 per mcf).

Management is also continually investigating additional opportunities to enhance overall shareholder value. This may involve additions to AKITA's fleet, increasing the Company's geographic span, or may involve finding complementary business opportunities. Prospects being reviewed must meet certain criteria including profitability, cyclical vulnerability and other risk considerations, and other factors.

safety & environmental performance



During 2003, AKITA recorded its best safety performance in the Company's history. Headlining this performance was a lost time accident frequency of 0.42 accidents per 200,000 hours worked compared to an accident rate of 1.84 for the industry (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors). AKITA's safety performance has outperformed industry averages in each year since inception.

AKITA is strongly committed to the ongoing safety of its employees. The Company incorporates methods to eliminate or reduce hazards in the design of equipment as well as through the use of standardized operating procedures that are regularly updated. Managers, employees and subcontractors are all required to understand and accept their responsibility for maintaining a safe working environment.

AKITA has a long-standing commitment to ensure that its daily operations are environmentally responsible and are in compliance with all regulatory requirements. The Company continually monitors products used and procedures followed in its operations as well as changes in regulations to ensure responsible management of environmental issues. The Board of Directors receives regular reports regarding compliance with AKITA's comprehensive environmental management programs. AKITA's programs have been in place for many years and are continually monitored, improved upon, and supplemented, as circumstances warrant.

management's discussion & analysis

The following sets out management's analysis of the financial position, cash flows and results of operations for AKITA Drilling Ltd. (also referred to as "AKITA" or "the Company") for the years ended December 31, 2003 and 2002. The information is intended to assist readers in analysing the financial affairs of the Company. In addition to the information in this section, AKITA's audited financial statements for 2003 and 2002, including notes thereon, found on pages 31 to 44, provide information on the Company's financial position, cash flows and results of its operations. The information in this MD&A was approved by AKITA's Board of Directors on March 22, 2004 and incorporates all relevant considerations to that date.

REVENUE AND OPERATING & MAINTENANCE EXPENSES

\$Million	2003	2002	Change	%
Revenue	124.1	102.9	21.2	21%
Operating & Maintenance Expenses	74.8	59.9	14.9	25%

Overall revenue increased to \$124,078,000 in 2003 from \$102,895,000 in 2002 as a result of stronger overall activity in the drilling sector. The most active segment of the market involved shallow capacity rigs, particularly as a result of increased interest in shallow gas wells. In addition to an increase in total revenue, revenue per operating day increased to \$17,378 during 2003 from \$16,723 per operating day in 2002 due to stronger market conditions. Operating and maintenance costs vary directly with revenue and amounted to \$74,811,000 or \$10,478 per operating day during 2003 compared with \$59,929,000 or \$9,740 per operating day for the prior year.

The Company's operations are all within the contract drilling segment and are conducted in Western Canada and the Northern Territories. Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on daywork contracts is measured based upon the passage of time in accordance with the terms of the contracts. Daywork contracts represented 97% of all revenue generated in 2003 (2002 – 96%). Notably, all contracts being performed at the year-end dates of December 31, 2003 and December 31, 2002 were performed on a daywork basis. No losses were anticipated at either of these year-end dates and accordingly no losses have been provided for.

At December 31, 2003, AKITA had 36 rigs under management (33.45 rigs net), the same number of rigs under management as at the end of 2002. The Company provided drilling services to 64 customers in 2003 (2002 - 68 customers) including five customers that each provided more than 10% of AKITA's revenue for the year (2002 – four customers).

management's discussion & analysis

DEPRECIATION EXPENSE

\$Million	2003	2002	Change	%
Depreciation Expense	9.4	8.8	0.6	7%

AKITA depreciates its rigs using the unit of production method. Most of these rigs are depreciated based on an estimated service life of 2,000 operating days per rig, although the company records depreciation on five of its newest deep rigs over an estimated service life of 3,600 operating days per rig. Unlike other rigs in AKITA's fleet, in particular those that were already used at the time AKITA became an independent public company in 1993, these five rigs depreciated over 3,600 operating days are newly constructed and are subject to fewer moves than the smaller sized rigs in AKITA's fleet. The depreciation expense increase to \$9,432,000 during 2003 from \$8,819,000 during 2002 was mostly attributable to the increase in operating days over the prior year. Assets other than rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation. Management assesses the estimated remaining life of its rigs annually.

SELLING AND ADMINISTRATIVE EXPENSES

\$Million	2003	2002	Change	%
Selling & Admin Expense	11.5	10.0	1.5	15%

Selling and administrative expenses were 9.3% of total revenue in 2003 compared to 9.7% of total revenue in 2002. The single largest component was salaries and benefits, which accounted for 63% of these expenses (2002 - 62%).

OTHER INCOME (EXPENSE)

\$Million	2003	2002	Change	%
Other Income	0.4	(0.7)	1.1	>100%

Gains from the sales of joint venture interests in rigs totalled \$479,000 in 2003 compared to \$344,000 in the previous year. Interest expense on long-term debt was \$1,045,000 in 2003 compared to \$1,611,000 in 2002 as a result of a reduced level of long-term debt. Cash balances held which are surplus to daily operating requirements have increased to \$27.9 million at December 31, 2003 and have resulted in AKITA generating \$956,000 in interest income in 2003 compared to \$594,000 in 2002. Therefore, on a "net interest basis" (i.e. interest expense less interest income) AKITA's interest cost declined to \$89,000 in 2003 from \$1,017,000 in the previous year.

management's discussion & analysis

INCOME TAX EXPENSE

\$Million	2003	2002	Change	%
Current Tax	7.6	4.8	2.8	57%
Future Tax	2.3	4.3	(2.0)	(47%)

Income tax expense increased to \$9,856,000 in 2003 from \$9,128,000 in 2002, mostly due to higher pretax earnings, which were partially offset by lower income tax rates. A smaller portion of 2003 tax expense was classified as future tax as the tax deferral from previous years' rig construction has declined.

NET EARNINGS AND CASH FLOW

\$Million	2003	2002	Change	%
Net Earnings	18.8	14.3	4.5	31%
Cash Flow from Operations	30.4	27.5	2.9	11%

Net earnings increased to \$18,822,000 or \$2.09 per Class A Non-Voting Share and Class B Common Share for 2003 from \$14,345,000 or \$1.58 per share in 2002. Cash flow from operations increased to \$30,426,000 in 2003 from \$27,459,000 in 2002. Higher activity levels as well as some increases in day rates accounted for both the increase in earnings and cash flow.

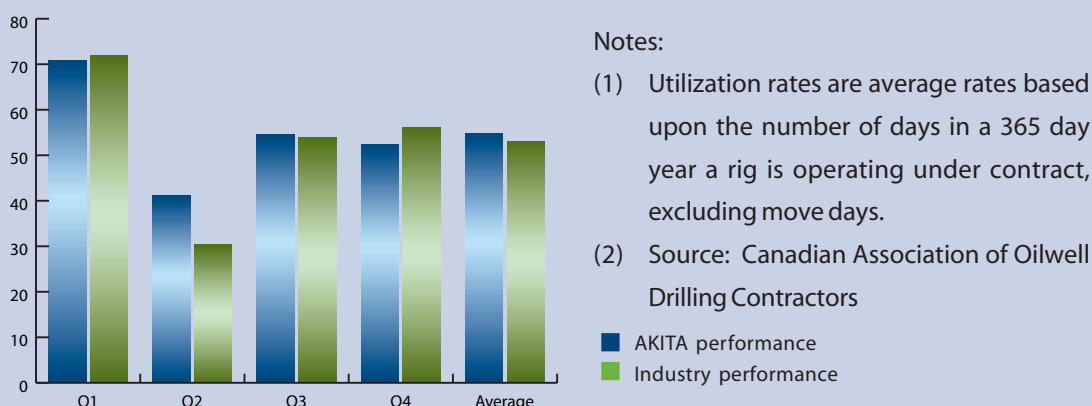
FLEET AND UTILIZATION

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 2003, AKITA's utilization rate was 54.7%, which was 7.9 percentage points higher than the previous year and 1.6 percentage points higher than the 2003 industry average. Shallow capacity rigs led the market as a result of strong demand for shallow gas, and to a lesser extent, heavy oil. Deep capacity rigs (generally targeting deep natural gas) represented the slowest segment.

In addition to depth capacity, the number of rigs located in the North influences AKITA's utilization. This geographic sector is quite diverse but generally results in shorter drilling seasons than exist for southern locations. In many cases, AKITA receives standby revenue to help offset the higher amount of down time involved in operating in Northern Canada.

management's discussion & analysis

The following graph highlights AKITA's 2003 utilization rates compared to the industry average:



The Canadian drilling industry is seasonal with activity building in the fall and peaking during the winter months as northern transportation routes become available when areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak Canadian 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. AKITA's second quarter utilization was significantly higher than the industry average due to a later break-up in remote northern locations. However, many of AKITA's rigs located in these regions are also subject to a much shorter drilling season.

The seasonal level of operations has a corresponding impact on financial results. The following table highlights the seasonal impact of AKITA's operations for 2003 and 2002:

	Dec. 31	Sept. 30	June 30	Mar. 31
<i>(dollars in thousands, except per share)</i>		(restated)	(restated)	(restated)
<i>(unaudited)</i>				
2003 - Three Months Ended				
Revenue	31,062	28,988	24,741	39,287
Earnings	5,434	4,134	3,495	5,759
Basic earnings per share	0.60	0.46	0.39	0.64
Diluted earnings per share	0.58	0.45	0.38	0.62
Cash flow from operations	7,478	7,073	5,824	10,051
2002 - Three Months Ended				
Revenue	26,105	21,396	17,611	37,783
Earnings	4,023	2,682	1,629	6,011
Basic earnings per share	0.44	0.30	0.18	0.66
Diluted earnings per share	0.42	0.29	0.18	0.65
Cash flow from operations	7,560	5,349	3,526	11,024

management's discussion & analysis

The Company elected to prospectively adopt the recommendations to CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" pursuant to the transitional provisions contained therein, effective January 1, 2003. Under this amended standard, the Company accounts for compensation expense based on the fair value of options granted under its stock option plan. For options granted in 2002, AKITA has elected to disclose proforma results as if the amended accounting standard had been applied to options granted in 2002. No effect has been given to options granted prior to 2002.

During the fourth quarter of 2003, the activity for the Company was 1,703 operating days compared to 1,627 operating days during the corresponding period in 2002. The stronger market conditions in 2003 affected overall revenue rates for the fourth quarter, as well (revenue rates equated to \$18,240 per operating day in the fourth quarter of 2003 versus \$16,045 in the fourth quarter of 2002). The higher rig activity and revenue rates in the fourth quarter of 2003 compared to the corresponding quarter in 2002 resulted in corresponding increases in earnings, earnings per share and cash flow from operations. However, overall liquidity did not increase during the fourth quarter of 2003 since the Company was in the process of completing its single largest capital expenditure (\$7.9 Million for the construction of a new heavy oil pad rig) during this period. Liquidity had increased in the fourth quarter of 2002 since no comparable expenditure took place during that period.

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

	2003	2002	2001
<i>(dollars in thousands, except per share)</i>			
Revenue	124,078	102,895	110,844
Earnings	18,822	14,345	17,889
Basic earnings per share	2.09	1.58	1.97
Earnings per share, diluted	2.03	1.54	1.94
Dividends per Class A Non-Voting and Class B Common share	0.36	0.36	0.36
Cash flow from operations	30,426	27,459	26,959
Working capital	24,319	26,551	19,823
Long term debt	9,339	14,382	38,135
Shareholders' equity	103,590	90,947	80,472
Total Assets	150,901	133,901	145,859

management's discussion & analysis

LIQUIDITY AND CAPITAL RESOURCES

AKITA has typically generated sufficient cash flow from operations to fund its normal operating activities as well as capital expenditures. In years in which no new rigs are built under contract, the Company typically restricts capital expenditures to less than 50% of cash flow from operations. In 2003, AKITA's capital expenditure program of \$17,261,000 represented 57% of cash flow from operations and was predominantly dedicated to one new rig in addition to routine capital expenditures.

At December 31, 2003, AKITA had \$24,319,000 in working capital including \$27,906,000 in cash, compared to \$26,551,000 in working capital, including \$23,053,000 in cash, for the previous year. In 2003, a record amount of cash was generated from operations (\$30,426,000) due to strong market conditions. Cash was also generated from a reduction in non-cash working capital (\$1,844,000), as well as through proceeds from asset sales (\$1,139,000) and proceeds from the issuance of shares (\$77,000). During the same period, cash was used for capital expenditures (\$17,261,000) including the construction of a pad drilling rig for heavy oil drilling, changes in non-cash working capital not related to operating activities (\$494,000), repurchasing share capital (\$2,994,000), payment of debt (\$5,043,000) and the payment of dividends (\$3,335,000).

AKITA's bank operating line is unchanged at \$10,000,000 from the prior year. Interest is payable on the operating line at prime interest rates and is secured by accounts receivable. The total amount of available financing varies with receivable balances. This operating line was not drawn upon at December 31, 2003.

In 2001, AKITA established a term loan facility totalling \$40 million to partially fund construction of drilling rigs. Interest is payable on the outstanding balance at 6.24%. Term loans were based upon maximum terms of four years and allow for early repayment at AKITA's option. Certain assets, promissory notes and an assignment of insurance proceeds on certain assets have been pledged as security for this facility. At December 31, 2003, AKITA had a balance of \$9,339,000 outstanding from this term loan facility.

In 2002, AKITA established a renewable borrowing facility of up to \$20 million at prime plus ½%, pledging similar security as described herein for the existing term facility. To date, the Company has not drawn upon this facility including at December 31, 2003.

In 2001, AKITA issued 333,350 Cumulative Redeemable Convertible Preferred Shares (the "Preferred Shares") for total proceeds of \$5 million. The Preferred Shares pay dividends at 4% and carry the right to be converted on November 30, 2004 into Class A Non-Voting Shares on a one for one basis. Any Preferred Shares not converted must be redeemed by the Company on December 1, 2004 at \$15 per share.

During the first quarter of 2003, the Company repurchased 140,500 Class A Non-Voting shares at an average price of \$21.31 pursuant to a Normal Course Issuer Bid.

AKITA leases its head office space. Total 2003 annual lease payments were \$192,000. This lease expires on December 31, 2004

management's discussion & analysis

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

Contractual Obligations <i>(Dollars in thousands)</i>	Total	Less than one year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt	\$9,339	\$5,366	\$3,973	Nil	Nil
Capital lease obligations	Nil	Nil	Nil	Nil	Nil
Operating leases	192	192	Nil	Nil	Nil
Purchase obligations	658	158	329	171	Nil
Pension obligations	2,610	Nil	2,141	Nil	469
Preferred shares	4,918	4,918	Nil	Nil	Nil
Total contractual obligations	\$17,717	\$10,634	\$6,443	\$171	\$469

FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities during the year included cash, accounts receivable, accounts payable, long-term debt and preferred shares. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated.

Management considers the credit risk associated with accounts receivable to generally be low as substantially all counterparties are well established and financed oil and gas companies. AKITA has detailed credit-granting procedures and in certain situations may require customers to make advance payment prior to provision of services or take other measures to help reduce credit risk. Provisions have been estimated by management and included in the accounts to satisfy any potential bad debts.

Additionally, the Company's financial instruments include long-term debt that bears interest at 6.24%, which approximates fair value.

OFF-BALANCE SHEET TRANSACTIONS

AKITA has not entered into any arrangements that involve off-balance sheet transactions.

RELATED PARTY TRANSACTIONS

AKITA is affiliated to the ATCO Group of companies and to Spruce Meadows through its majority shareholder. All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Capital purchases totalled \$214,000 and relate to the purchase of

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well-site trailers. Operating purchases totalled \$381,000 and included computer services (\$112,000), sponsorship and advertising (\$164,000), audiovisual services (\$64,000) and other (\$41,000). Subsequent to year-end, the Company entered into a four-year contract to provide sponsorship and advertising to Spruce Meadows at a total cost of \$658,000, including \$158,000 for 2004. Costs and related services are consistent with parties dealing at arms length.

CLASS A AND CLASS B SHARE DIVIDENDS

Per Share	2003	2002	Change	%
Dividends per share	0.36	0.36	0.0	0%

During 2003, AKITA paid dividends totalling \$0.36 per share (\$3,335,000) on its Class A Non-Voting and Class B Common Shares, unchanged from \$0.36 per share (\$3,283,000) for 2002. 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, dividends have been paid in each quarter of every year. In November 2003, the Board declared an 11.1% increase in the quarterly dividend rate to \$0.10 per share. The most recent dividend was declared on February 23, 2004 with a dividend rate of \$0.10 per share.

CLASS A NON-VOTING AND CLASS B COMMON SHARES

Authorized

An unlimited number of Class A Non-Voting Shares

An unlimited number of Class B Common Shares

Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration (\$000's)	Number of Shares	Consideration (\$000's)	Number of Shares	Consideration (\$000'S)
December 31, 2001	8,252,579	\$16,675	828,342	\$1,368	9,080,921	\$18,043
Stock Option Plans	170,000	1,069	-	-	170,000	1,069
Purchased	(101,500)	(209)	-	-	(101,500)	(209)
December 31, 2002	8,321,079	\$17,535	828,342	\$1,368	9,149,421	\$18,903
Stock Option Plans	14,000	77	-	-	14,000	77
Purchased	(140,500)	(293)	-	-	(140,500)	(293)
December 31, 2003	8,194,579	\$17,319	828,342	\$1,368	9,022,921	\$18,687
Exercisable Options	27,400					
@ December 31, 2003						
Unexercisable Options	91,600					
@ December 31, 2003						

management's discussion & analysis

The Company has also issued 333,350 4% Cumulative Redeemable Convertible Preferred shares. Details regarding these preferred shares are provided under the "Liquidity and Capital Resources" section of this MD&A.

During 2003 AKITA adopted the new CICA standard for expensing stock options. The impact of this change was to increase Selling and Administrative Expense by \$73,000, which represented the current year's cost associated with the tranche of options issued on February 28, 2003. This is the only change in accounting policy adopted by the Company during the year.

CAPITAL ASSETS

Capital expenditures totalled \$17,261,000 in 2003 and were primarily spent to build a new heavy oil pad rig (\$7,891,000) and to upgrade one rig that was redeployed to the arctic (\$1,445,000). Additional capital expenditures relate to rig equipment (\$5,890,000), drill pipe and drill collars (\$1,515,000) and vehicles and other equipment (\$520,000). Capital expenditures for 2002 totalled \$5,831,000.

AKITA's net book values for rigs and related equipment were significantly lower than current replacement costs. At year-end, the average net book value of AKITA's rig fleet was \$2.6 million per rig.

Management reviews its assets on an annual basis and makes a determination based upon its own knowledge of the assets to ensure each net recoverable amount (based on future net cash flows) will be achieved over remaining service lives. No adjustments were made in 2003 or 2002 to carrying values as a result of this review.

ACCOUNTING ESTIMATES

The preparation of AKITA's financial statements includes significant estimates relating to the useful lives of drilling rigs. Management determines, based upon a detailed understanding of the age and quality as well as the type of wells being drilled by each rig, the likely useful remaining life for each rig. Current life estimates for new rigs range from 2,000 operating days to 3,600 operating days. Current life estimates for significantly refurbished rigs are 2,000 operating days. Depreciation rates have been consistent for the Company since its inception in 1993 and have not resulted in any changes in estimates for any previous period and to date.

AKITA's depreciation estimates do not have any effect on the changes to financial condition for the Company, as depreciation is a non-cash item. However, total assets and results of operations including net income could be either understated or overstated as a result of depreciation estimates that are either too high or too low. It is unlikely that any overstatement or understatement would manifest itself over a relatively short period of less than five years. However, if insufficient depreciation is charged over longer periods, a possibility exists for a

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significant asset write-down, particularly in periods of weak drilling activity. Management is sensitive to this possibility and takes care to ensure capital assets are not recorded in excess of realizable values.

BUSINESS RISKS AND RISK MANAGEMENT

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors, including weather, world oil and North American natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long-term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle.

The success of AKITA also depends on other factors, including competition and the management of operational and environmental risks.

AKITA manages its risks in these areas by:

- 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
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program constantly upgrading its rig fleet
- maintaining comprehensive insurance policies with respect to its operations

AKITA is subject to federal, provincial, territorial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from operating drilling rigs.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of hazardous materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as its own well developed and closely monitored internal procedures through a program of regular environmental audits. Some risk of unintentional breaches of environmental protection laws and potential liability is occasionally inherent in particular operations of the industry.

management's discussion & analysis

AKITA does not believe that environmental protection laws and regulations affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks. As a matter of policy, AKITA ensures blowout insurance has been obtained by its customers and thereby reduces its related risk.

Drilling in Northern Canada is an important aspect of AKITA's operations. Special challenges are present in order to operate effectively in this region. The North represents a small part of the total Canadian market, is very seasonal and in most cases depends upon frozen conditions and ice. Local businesses, communities and land corporations play a major role in the infrastructure of the North through aboriginal land claim settlements and access agreements. AKITA manages its risks in this region by adding new rigs only on a multi-year contract basis and by working co-operatively in Joint Ventures with aboriginal partners with both partners sharing rig ownership.

FUTURE OUTLOOK

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.

AKITA's prospects continue to appear positive in the short-term especially as a result of currently high commodity prices for both oil and natural gas. The Canadian Association of Oilwell Drilling Contractors (CAODC) currently forecasts drilling approximately 18,000 wells in 2004 compared to 19,851 wells in 2003. This forecast was based on underlying commodity price forecasts that, to date, have been exceeded by over 10%. Although factors other than commodity prices (including, but certainly not limited to, political events, natural gas storage levels and cash flows of customers) can influence drilling activity, year-to-date activity levels for 2004 are indicative that activity levels for 2004 may be higher than CAODC's forecast.

In 2000 and 2001, the Company built five rigs that have been working under long-term contracts. The first of these contracts is due to expire December 31, 2004 with two more expiring in 2005 and the last two expiring in 2006. Management is uncertain if any of these contracts will be renewed, and if renewed what rates will be realized during any renewal term. Management has established objectives to maximize the earnings and cash

management's discussion & analysis

flow streams from these rigs after contract expiries and to supplement any shortfalls with new initiatives. Developments in the Mackenzie Delta are not occurring as quickly as planned. Consequently, management is uncertain if these objectives will be met.

During 2003, the Company entered into a long-term contract with a large corporation for which the Company constructed a drilling rig. The rig use contract provides for 1,000 operating days over a maximum of four years.

Longer term, the Company remains well positioned as a result of its emphasis on both shallow and deep drilling, and has rigs in position to take advantage of heavy oil and frontier drilling opportunities.

AKITA is continuing to pursue other opportunities, particularly in the North.

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 the risk that the predictions and other forward-looking statements will not be achieved. 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 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 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.

OTHER INFORMATION

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 22, 2004. Copies of this information including additional copies of the Annual Report for the year ended December 31, 2003 may be obtained upon request from the Vice President Finance of the Company at 1110, 505 – 3rd Street S.W., Calgary, Alberta, T2P 3E6 or at www.sedar.com.

management's responsibility

The accompanying financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to the organization contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, estimates of transactions and operations that were incomplete at year-end have been made by management. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining systems of internal control. These systems are designed to provide assurance that assets are safeguarded from loss or unauthorized use, that transactions are properly recorded and that the financial records are reliable for preparing the financial statements.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the financial statements and have had full access to the Audit Committee. Their report appears on page 30.

The Board of Directors, through its Audit Committee comprised of three non-management directors, 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.



John B. Hlavka
President and C.E.O.



Murray J. Roth
Vice President Finance

auditors' report

TO THE SHAREHOLDERS OF AKITA DRILLING LTD.

We have audited the balance sheets of AKITA Drilling Ltd. as at December 31, 2003 and 2002 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

February 27, 2004

balance sheet

(Dollars in thousands)			
December 31		2003	2002
Assets			
Current assets			
Cash		\$27,906	\$23,053
Accounts receivable		25,832	20,353
Income taxes recoverable		-	502
Other		107	106
		53,845	44,014
Investments		55	78
Capital assets	Note 3	97,001	89,809
		\$150,901	\$133,901
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$15,422	\$12,420
Income taxes payable		3,820	-
Current portion of long term debt		5,366	5,043
Current portion of series preferred shares	Note 7	4,918	-
		29,526	17,463
Long term debt	Note 5	3,973	9,339
Future income taxes	Note 11	11,202	8,932
Pension liability	Note 6	2,610	2,378
Series preferred shares	Note 7	-	4,842
Class A and Class B Shareholders' Equity			
Series preferred shares	Note 7	228	228
Class A and Class B shares	Note 8	18,687	18,903
Contributed surplus	Note 10	73	-
Retained earnings		84,602	71,816
		103,590	90,947
		\$150,901	\$133,901

Approved by the Board



Director



Director

statement of earnings & retained earnings

(Dollars in thousands, except per share)			
Year ended December 31		2003	2002
Revenue		\$124,078	\$102,895
Costs and expenses			
Operating and maintenance		74,811	59,929
Depreciation		9,432	8,819
Selling and administrative		11,547	10,001
		95,790	78,749
		28,288	24,146
Other income (expense)			
Interest on long-term debt	Note 5	(1,045)	(1,611)
Interest income		956	594
Gain on sale of joint venture interests in rigs		479	344
		390	(673)
Earnings before income taxes		28,678	23,473
Income taxes	Note 11		
Current		7,586	4,819
Future		2,270	4,309
		9,856	9,128
Net earnings		18,822	14,345
Retained earnings, beginning of year		71,816	62,201
Dividends		(3,335)	(3,283)
Adjustment on repurchase and cancellation of share capital		(2,701)	(1,447)
Retained earnings, end of year		\$84,602	\$71,816
Earnings per Class A and Class B share	Note 9		
Basic		\$2.09	\$1.58
Diluted		\$2.03	\$1.54

statement of cash flows

(Dollars in thousands)		
Year ended December 31	2003	2002
Operating activities		
Net earnings	\$18,822	\$14,345
Non-cash items included in earnings		
Depreciation	9,432	8,819
Future income tax	2,270	4,309
Pension expense	232	260
Amortization of preferred share discount	76	70
Stock options charged to expense	73	-
Gain on disposal of capital assets	(479)	(344)
Cash flow from operations	30,426	27,459
Change in non-cash working capital	2,338	(2,124)
	32,764	25,335
Investing activities		
Capital expenditures	(17,261)	(5,831)
Proceeds on sales of joint venture interests in rigs	1,139	7,892
Change in non-cash working capital	(585)	477
	(16,707)	2,538
Financing activities		
Repayment of long-term debt	(5,043)	(23,753)
Dividends	(3,335)	(3,283)
Issue of share capital	77	1,069
Repurchase of share capital	(2,994)	(1,656)
Change in non-cash working capital	91	(14)
	(11,204)	(27,637)
Increase in cash	4,853	236
Cash position, beginning of year	23,053	22,817
Cash position, end of year ¹	\$27,906	\$23,053
Interest paid during the year	\$967	\$1,635
Income taxes paid during the year	\$3,264	\$7,646

¹ Cash comprises cash and highly liquid short-term investments.

notes to the financial statements

December 31, 2003

(tabular amounts in thousands of dollars except where noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AKITA Drilling Ltd.'s financial statements are prepared in accordance with accounting principles generally accepted in Canada.

Revenue recognition on contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. On daywork contracts work in progress is measured based upon the passage of time. Any anticipated loss is provided for in its entirety when the estimated loss is identified.

Depreciation

Drilling rigs are depreciated using the unit of production method based on an initial estimated life of 2,000 or 3,600 operating days per rig depending upon the relative amount of moving required, the age of the equipment when acquired by AKITA as well as other factors that may result in different rates of wear and tear.

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

Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 4% to 25% per annum except drilling camps, which are depreciated using a straight-line basis over 10 years.

Stock based compensation plans

The Company has two stock-based compensation plans, which are described in Note 10. AKITA started to record compensation expense, based on the estimated fair value, over the vesting period for stock options granted in 2003. Any consideration paid by employees on exercise of stock options is credited to share capital. No compensation expense has been recorded for awards granted prior to 2003.

Compensation expense for share appreciation rights is accrued monthly based upon the excess of underlying month-end share price over the base value of the rights. The accrued liability is adjusted for the effect of changes in the underlying share price through charges or credits to compensation expense.

notes to the financial statements

Income Taxes

The Company records income taxes using the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using tax rates that are substantively enacted to be in effect when the differences are expected to reverse. The effect of a change in tax rates is recognized in income in the period that the change becomes substantively enacted.

Employee Future Benefits

The Company accrues for its obligations under its defined benefit pension plan. Costs of these benefits are determined using the projected benefits method prorated on service and reflect management's best estimates of wage and salary increases and age at retirement. Any unrecognized amounts resulting from experience gains or losses or changes in actuarial assumptions in excess of 10% of the actuarial present value of retirement benefits are amortized over the expected remaining service lifetime of each individual on a straight-line basis.

Employer contributions to the defined contribution pension and group RRSP plans are expensed as paid.

Per Share Data

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effects of all potentially dilutive instruments are included in the weighted average number of shares. It is also assumed that no cash flow or income is earned on the proceeds received from the dilutive shares issued, but rather, the proceeds are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

Joint Ventures

The Company conducts most of its operations in Canada's northern territories via joint ventures. Ownership in and results of operation from these joint ventures are recorded under the proportionate consolidation method whereby only AKITA's share of the assets, liabilities, revenue and expenses are recognized. There are no significant terms or conditions in any of the Company's joint ventures that could have a material financial statement impact.

notes to the financial statements

Use of Estimates

The preparation of financial statements requires management to make 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. Significant estimates used in the preparation of these financial statements include estimates relating to the useful lives of drilling rigs.

2. CHANGE IN ACCOUNTING POLICY

Stock Based Compensation

The Company elected to prospectively adopt amendments to CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" pursuant to the transitional provisions contained therein, effective January 1, 2003. Under this amended standard, the Company accounts for compensation expense based on the fair value of options granted under its stock option plan. For options granted in 2002, AKITA has elected to disclose proforma results as if the amended accounting standard had been applied to options granted in 2002. No effect has been given to any options granted prior to 2002.

As a result of adopting this standard, net income for the year ended December 31, 2003 decreased by \$73,000 and contributed surplus increased by \$73,000. See Note 10 for additional information regarding the nature of the plan and the associated compensation expense.

3. CAPITAL ASSETS

	2003		2002	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Drilling rigs and related equipment	\$147,199	\$52,083	\$131,049	\$43,044
Other	3,910	2,025	3,710	1,906
	\$151,109	\$54,108	\$134,759	\$44,950
Net Book Value	\$97,001		\$89,809	

4. CREDIT LINE

The Company has a credit line totalling the lesser of \$10 million or 80% of accounts receivable at bank prime secured by a general assignment of accounts receivable. This line was not drawn upon at either December 31, 2003 or December 31, 2002.

notes to the financial statements

5. LONG TERM DEBT

	2003	2002
Bank term loans outstanding	\$9,339	\$14,382
Current portion	5,366	5,043
	\$3,973	\$9,339

Bank term loans were divided into two equal components at the time financing was arranged, one half bearing interest at prime plus ½% while the second half bears interest at 6.24%. Both portions of each term loan were based upon maximum terms of four years and allow for early repayment at the borrower's option. In 2002 AKITA exercised its option to repay the floating rate portion of its term loans and replaced it with a renewable borrowing facility of up to \$20 million under similar terms and conditions. To date, the Company has not drawn upon the replacement facility. The average effective borrowing rate during 2003 was 6.24% (2002 – 5.79%).

Security for bank term loans consists of a general security agreement providing for a fixed charge on certain assets, promissory notes and an assignment of insurance proceeds on certain property and equipment.

Minimum principal payments are as follows:

Year	
2004	\$5,366
2005	3,973

6. PENSION LIABILITY

The Company has a defined contribution pension plan that covers substantially all of its employees. Under the provisions of the plan, the Company contributes 5% of regular earnings for eligible employees on a current basis. In addition, employees having eligible terms of service are subject to admission into the group RRSP plan.

The Company has also established a defined benefit pension plan for selected employees. The defined benefit plan, which provides for pensions based upon the age of the retiree at the date of retirement and in certain cases the final average earnings and is non-contributory and unfunded.

No current service cost was incurred in either 2003 or 2002.

notes to the financial statements

	2003	2002
Accrued benefit obligation as at January 1	\$2,378	\$2,118
Interest cost	193	188
Actuarial loss	39	72
Accrued benefit obligation as at December 31	2,610	2,378
Unamortized net losses	338	353
Unamortized transitional obligation	325	356
Actuarial present value of defined benefit obligation	\$3,273	\$3,087
Assumptions (per cent)		
	2003	2002
Discount rate	6.00	6.25
Rate of compensation growth	3.0	3.0

No payments were made during the year pursuant to the defined benefit pension plan.

During the year the Company charged \$2,332,000 to expense in respect of its pension plans (2002 - \$2,280,000).

7. SERIES PREFERRED SHARES

Authorized

An unlimited number of Series Preferred shares, issuable in series, designated as First Preferred Shares

An unlimited number of Series Preferred shares, issuable in series, designated as Second Preferred Shares

Issued

333,350 Series 1, 4% Cumulative Redeemable Convertible Preferred Shares

	2003	2002
Face amount	\$5,000	\$5,000
Equity component	(228)	(228)
Liability at inception	4,772	4,772
Cumulative accretion	146	70
	\$4,918	\$4,842

The Preferred shares were issued on December 1, 2001 to Sentgraf Enterprises Ltd., a holding company controlled by AKITA's principal shareholder. The Company must redeem the Preferred Shares on December 1, 2004 unless the shareholder has previously converted them. The Preferred Shares are not redeemable by the Company before that date. The Preferred Shares are convertible at \$15.00 per share on the business day prior to the date fixed for redemption of such shares into Class A Non-Voting Shares of the Company on the conversion basis of one Class A Non-Voting Share for each Preferred Share.

notes to the financial statements

The preferred shares contain both a liability and an equity element and thus the component parts have been classified separately on the balance sheet. The method of allocation of the total principal amount involved first determining the carrying amount of the financial liability component by discounting the stream of future payments of interest and principal at the assumed market interest rate which would have been negotiated had the preferred shares not included the conversion feature. The carrying amount of the equity instrument component represented by the option to convert the instrument into Class A Non-Voting Shares of the Company was then determined by deducting the carrying amount of the financial liability, as determined above, from the amount of the compound instrument as a whole.

Preferred share dividends and the amortization of the preferred share discount have been classified as an increase to interest on long-term debt on the Statement of Earnings and Retained Earnings.

8. CLASS A NON-VOTING AND CLASS B COMMON SHARES

Authorized

An unlimited number of Class A Non-Voting Shares

An unlimited number of Class B Common Shares

Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
December 31, 2001	8,252,579	\$16,675	828,342	\$1,368	9,080,921	\$18,043
Stock Option Plans	170,000	1,069	-	-	170,000	1,069
Purchased	(101,500)	(209)	-	-	(101,500)	(209)
December 31, 2002	8,321,079	17,535	828,342	1,368	9,149,421	18,903
Stock Option Plans	14,000	77	-	-	14,000	77
Purchased	(140,500)	(293)	-	-	(140,500)	(293)
December 31, 2003	8,194,579	\$17,319	828,342	\$1,368	9,022,921	\$18,687

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

On May 1, 2002, the Company commenced a normal course issuer bid for the purchase of up to 5% of the outstanding Class A Non-Voting shares. In 2003, 140,500 shares were repurchased and cancelled under this bid at a cost of \$2,994,000 of which \$293,000 was charged to share capital and \$2,701,000 to retained earnings.

notes to the financial statements

On May 30, 2003, the Company commenced a new normal course issuer bid for the purchase of up to 5% of the outstanding Class A Non-Voting shares. The offer will expire on May 29, 2004. To December 31, 2003, no shares have been repurchased under this bid.

9. EARNINGS PER SHARE

	2003	2002
Net earnings	\$18,822	\$14,345
Weighted average outstanding shares	9,020,033	9,093,737
Incremental shares	363,667	364,176
Adjustment to earnings for preferred share conversion	\$ 200	\$ 200
Basic earnings per share (\$)	\$2.09	\$1.58
Diluted earnings per share (\$)	\$2.03	\$1.54

10. STOCK BASED COMPENSATION PLANS

At December 31, 2003, the Company had two fixed stock-based compensation plans, which are described below.

The Company's Compensation and Succession Committee, subject to Board approval, may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting shares. A maximum of 850,000 Class A Non-Voting shares have been reserved for issuance pursuant to outstanding options. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the date of grant.

In addition to stock options, share appreciation rights (SARs) may be granted to directors, officers and key employees of the Company. The vesting provisions 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.

A summary of the status of the Company's stock based compensation plans as of December 31, 2003 and 2002, and changes during the years ended on those dates is presented on the following page:

notes to the financial statements

	2003		2002	
	Shares Exercise Price (\$)	Weighted Average	Shares Exercise Price (\$)	Weighted Average
Outstanding at beginning of year (options and SARs)	116,000	9.08	510,000	7.88
Granted	62,000	19.88	1,000	16.81
Exercised	(14,000)	5.53	(395,000)	7.55
Outstanding at end of year (options and SARs)	164,000	13.46	116,000	9.08
Options exercisable at year-end	27,400	9.61	14,200	6.48
SARs exercisable at year-end	45,000	8.98	45,000	8.98

The following table summarizes information about stock based compensation plans at December 31, 2003:

Nature of Compensation	Exercise Price (\$)	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
SARs	8.98	45,000	3.0	45,000
Options	7.39	7,000	5.1	7,000
Options	8.59	12,000	6.0	5,000
Options	10.80	37,000	7.0	15,000
Options	16.81	1,000	8.6	400
Options	19.88	62,000	9.2	Nil

Share appreciation rights expense for the year ended December 31, 2003 amounted to \$144,000 (2002 - \$631,000).

The Company recorded compensation expense and contributed surplus of \$73,000 for options granted in 2003. Compensation expense was determined based on the following assumptions:

Risk free interest rate	4.63%
Expected volatility	32%
Dividends yield rate	1.81%
Weighted average expected life of options	7 years

notes to the financial statements

For options granted in 2002, the Company has elected to disclose proforma results as if the amended accounting standard had been applied retroactively. For the year ended December 31, 2003, the Company's net income would have decreased by \$1,000 for the estimated compensation cost associated with options granted under the plan between January 1 and December 31, 2002 as follows:

	2003	2002
Net Earnings as reported	\$18,822	\$14,345
Less: Compensation expense for options granted in 2002	1	1
Proforma Net Earnings	\$18,821	\$14,344
Basic Net Earnings per Share		
As Reported	\$2.09	\$1.58
Proforma	\$2.09	\$1.58
Diluted Net Earnings per Share		
As Reported	\$2.03	\$1.54
Proforma	\$2.03	\$1.54

11. INCOME TAXES

The income tax provision differs from that which would be computed using the statutory rates. A reconciliation of the differences is as follows:

	2003	2002
Earnings before income taxes	\$28,678	\$23,473
Expected income tax at statutory rate of 37.09% (2002 - 39.56%)	10,637	9,286
Add (Deduct):		
Reduction in future income tax rates	(469)	(288)
Prior year tax recovery	(521)	(136)
Permanent differences	106	73
Large corporations tax and other	103	193
Income tax provision	\$9,856	\$9,128

The net future tax liability is comprised of the tax effect of the following temporary differences:

	2003	2002
Capital assets	\$35,391	\$27,574
Employee pension and SAR benefits	(3,293)	(2,917)
Other	(175)	(119)
	31,923	24,538
Expected future income tax rate	35.09%	36.40%
Future income taxes at expected tax rate	\$11,202	\$8,932

12. RELATED PARTY

The Company is related to the ATCO Group of companies and to Spruce Meadows through its majority shareholder. The accompanying table summarizes transactions and year-end balances with those affiliates. These transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Each were considered to be at fair market value.

	2003	2002
Revenue	-	-
Purchases		
Capital	214	-
Operating	381	436
Year end accounts receivable	-	-
Year end accounts payable	11	9

13. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities as at December 31, 2003 included cash, accounts receivable, accounts payable, long-term debt and preferred shares. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated.

The credit risk associated with accounts receivable is generally considered to be low since substantially all counterparties are well established and financed oil and gas companies. Provisions have been estimated by management and included in the accounts to satisfy any potential bad debts.

Additionally, the Company's financial instruments include long-term debt that bears interest at 6.24%, which approximates fair value.

notes to the financial statements

14. JOINT VENTURES

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

	2003	2002
Current assets	\$3,993	\$4,435
Capital assets, net of accumulated depreciation	41,995	45,200
Current liabilities	6,152	5,894
Long-term liabilities	3,973	9,339
Revenue	24,215	20,450
Expenses	15,471	13,631
Net earnings	8,744	6,819
Cash flow from operating activities	12,669	8,799
Cash flow from financing activities	(5,043)	7,638
Cash flow from investing activities	-	-

15. SIGNIFICANT CUSTOMERS

During 2003, five customers (2002 - four customers) each provided more than 10% of AKITA's total revenue. In management's assessment, the future viability of the Company is not dependent upon any one of these major customers.

16. COMMITMENTS

During 2000 and 2001, the Company entered into long-term contracts with large corporations for which the Company constructed five drilling rigs. Four of these commitments were made by AKITA EQU TAK Drilling Ltd., a joint venture controlled 50% by AKITA, while the fifth commitment was made by the Company directly. The rig use contracts will expire in 2004 - 2006.

During 2003, the Company entered into a long-term contract with a large corporation for which the Company constructed a drilling rig. The rig use contract provides for 1,000 operating days over a maximum of four years.

Subsequent to year-end, the Company entered into a four year contract to provide sponsorship and advertising to a related company at a cost of \$658,000 including \$158,000 for 2004.

The Company leases its office space at an annual cost of approximately \$192,000 per year. This lease expires on December 31, 2004.

ten year financial review

(Dollars in thousands, except per share and per operating day)

	ANNUAL RANKING	2003	2002	2001
Summary of Operations				
Revenue	1	\$ 124,078	\$ 102,895	\$ 110,844
Earnings before income taxes	2	\$ 28,678	\$ 23,473	\$ 30,395
Income taxes	3	\$ 9,856	\$ 9,128	\$ 12,506
Net earnings	1	\$ 18,822	\$ 14,345	\$ 17,889
As a percentage of average shareholders' equity	6	19.4%	16.7%	24.5%
Earnings per Class A and Class B share	1	\$ 2.09	\$ 1.58	\$ 1.97
Cash flow from operations	1	\$ 30,426	\$ 27,459	\$ 26,959
As a percentage of average shareholders' equity	6	31.3%	32.0%	38.9%
Financial position at year end				
Working capital	5	\$ 24,319	\$ 26,551	\$ 19,823
Current ratio	9	1.82:1	2.52:1	1.77:1
Total assets	1	\$ 150,901	\$ 133,901	\$ 145,859
Shareholders' equity	1	\$ 103,590	\$ 90,947	\$ 80,472
per share	1	\$ 11.48	\$ 9.94	\$ 8.84
Other				
Capital expenditures (Net)	3	\$ 16,122	\$ (2,061)	\$ 54,319
Depreciation	1	\$ 9,432	\$ 8,819	\$ 7,763

	2000	1999	1998	1997	1996	1995	1994
	\$ 88,441	\$ 61,316	\$ 75,463	\$ 89,100	\$ 63,340	\$ 57,429	\$ 61,498
	\$ 19,792	\$ 9,194	\$ 19,762	\$ 21,421	\$ 12,841	\$ 11,200	\$ 12,401
	\$ 8,635	\$ 3,983	\$ 6,855	\$ 10,058	\$ 5,728	\$ 5,147	\$ 5,377
	\$ 11,157	\$ 5,211	\$ 12,907	\$ 11,363	\$ 7,113	\$ 6,053	\$ 7,024
	18.0%	9.0%	24.0%	25.5%	19.3%	19.8%	29.1%
	\$ 1.23	\$ 0.56	\$ 1.36	\$ 1.20	\$ 0.77	\$ 0.66	\$ 0.77
	\$ 17,110	\$ 10,894	\$ 17,914	\$ 15,467	\$ 9,713	\$ 8,475	\$ 9,184
	27.6%	18.5%	33.3%	34.7%	26.3%	27.8%	38.1%
	\$ 17,227	\$ 30,368	\$ 30,481	\$ 23,883	\$ 26,844	\$ 20,932	\$ 16,351
	2.07:1	3.67:1	4.16:1	2.04:1	3.47:1	3.28:1	2.29:1
	\$ 85,529	\$ 73,463	\$ 70,032	\$ 73,947	\$ 53,603	\$ 44,610	\$ 41,999
	\$ 65,624	\$ 58,170	\$ 58,190	\$ 48,767	\$ 40,460	\$ 33,388	\$ 27,574
	\$ 7.23	\$ 6.35	\$ 6.13	\$ 5.13	\$ 4.27	\$ 3.66	\$ 3.03
	\$ 26,548	\$ 7,670	\$ 7,832	\$ 15,372	\$ 3,760	\$ 3,655	\$ 3,408
	\$ 6,551	\$ 5,627	\$ 5,022	\$ 4,247	\$ 2,547	\$ 2,206	\$ 1,986

corporate information

DIRECTORS

William L. Britton, Q.C.
Deputy Chairman of the Board
of the Corporation
Vice-Chairman and Lead Director,
ATCO Ltd. and Canadian Utilities Limited
Partner, Bennett Jones LLP.
Calgary, Alberta

Linda A. Heathcott
Executive Vice President,
Spruce Meadows
President,
Team Spruce Meadows Inc.
Calgary, Alberta

John B. Hlavka
President and Chief Executive Officer
of the Corporation
Calgary, Alberta

Dale R. Richardson
Vice President,
Sentgraf Enterprises Ltd.
Calgary, Alberta

Margaret E. Southern,
O.C., L.V.O., LL.D.
President, Spruce Meadows
Calgary, Alberta

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

Ronald D. Southern, O.C.,
C.B.E., C.M., LL.D.
Chairman of the Board
of the Corporation
Chairman,
ATCO Ltd. and
Canadian Utilities Limited,
Calgary, Alberta

C. Perry Spitznagel
Partner, Bennett Jones LLP,
Calgary, Alberta

Charles W. Wilson
Corporate Director
Evergreen, Colorado

OFFICERS

John B. Hlavka
President and
Chief Executive Officer

Robert J. Hunt
Senior Vice President,
Marketing and the North

Craig W. Kushner
Corporate Secretary and
Human Resources Administrator

Murray J. Roth
Vice President Finance

Karl A. Ruud
Executive Vice President and
Chief Operating Officer

HEAD OFFICE

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e-mail: akitainfo@akita-drilling.com

BANKER

Alberta Treasury Branches,
Calgary, Alberta

COUNCIL

Bennett Jones LLP,
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers LLP,
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company,
Calgary, Alberta and Toronto, Ontario
1-800-387-0825

SHARE SYMBOLS/TSE

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

WEBSITE

www.akita-drilling.com

**AKITA'S
NORTHERN
JOINT
VENTURES:
AKITA EQU TAK
AKITA / SAHCHO
AKITA / SAHTU
AKITA / KASKA
AKITA / TRAILBREAKER**



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