2008 Annual Report

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 business, our outlook for 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 section of this 2008 Annual Report for AKITA.

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Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Tuesday May 5, 2009 at the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

Corporate Profile

AKITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling operations throughout Western Canada, New Brunswick, Canada's Northern Territories, the North Slope of Alaska and Colorado. 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, the Company specializes in purpose-built arctic and heavy oil pad 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 800 people. The Company has ownership in 41 drilling rigs in all depth ranges.

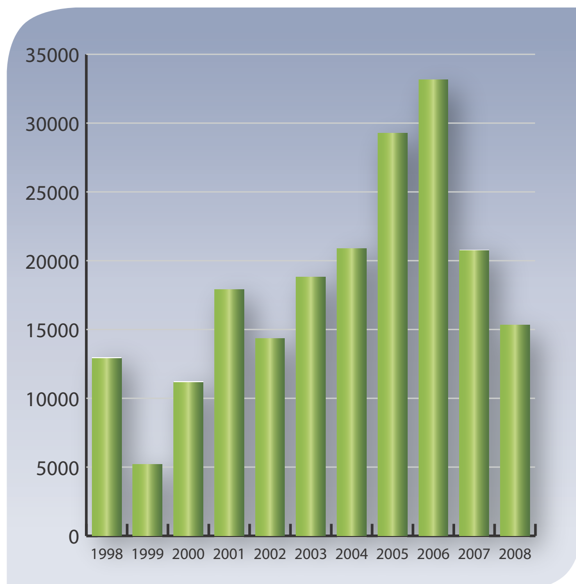
Operational Performance

Weak market conditions that began in 2007 persisted throughout 2008. Although rig utilization was up marginally when compared to the previous year, day rates were lower than during 2007 even though costs were higher. This resulted in AKITA recording its second consecutive year of decreases in annual net earnings. Nevertheless, AKITA has achieved positive earnings in each quarter of its 16 year history.

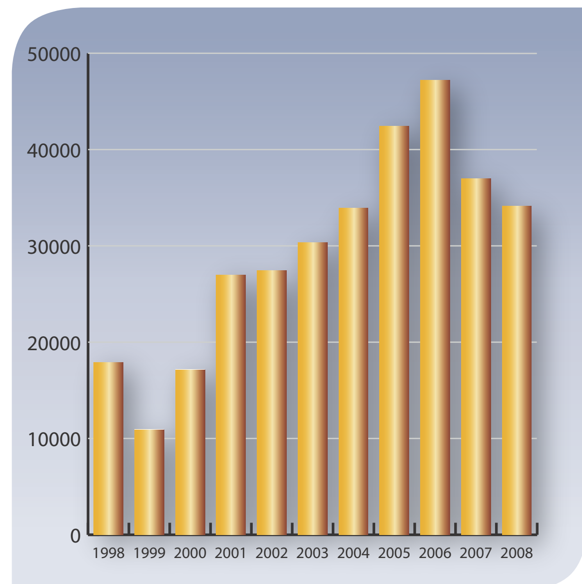
Funds flow from operations also declined, primarily due to weaker earnings. However, funds flow from operations was more than sufficient to meet the capital expenditure needs for the Company and fund the quarterly dividend program.

AKITA continues to maintain a strong liquidity position as demonstrated by having $63,089,000 in working capital despite weak market conditions for oil and gas drilling. This record year-end balance gives great flexibility to the Company for managing its financial affairs.

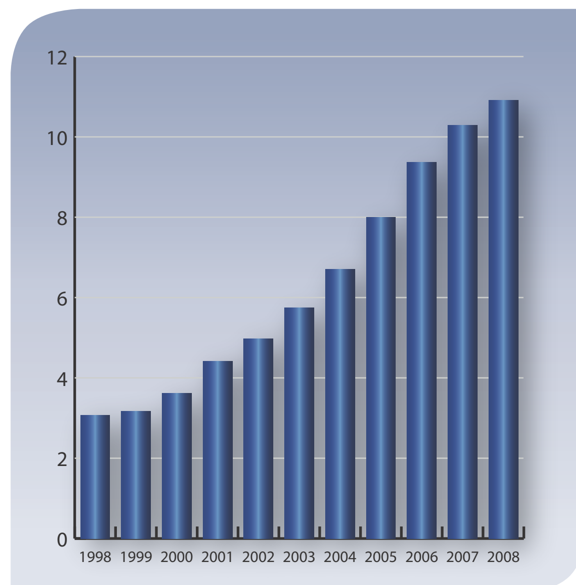
Equity per share grew 5.8% on a one year basis, and 13.5% compounded over the past ten years.



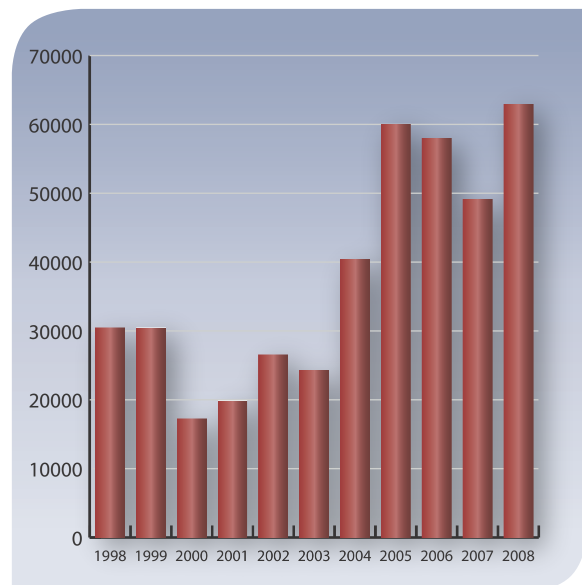
Net Earnings (000's)



Funds Flow from Continuing Operations (000's)



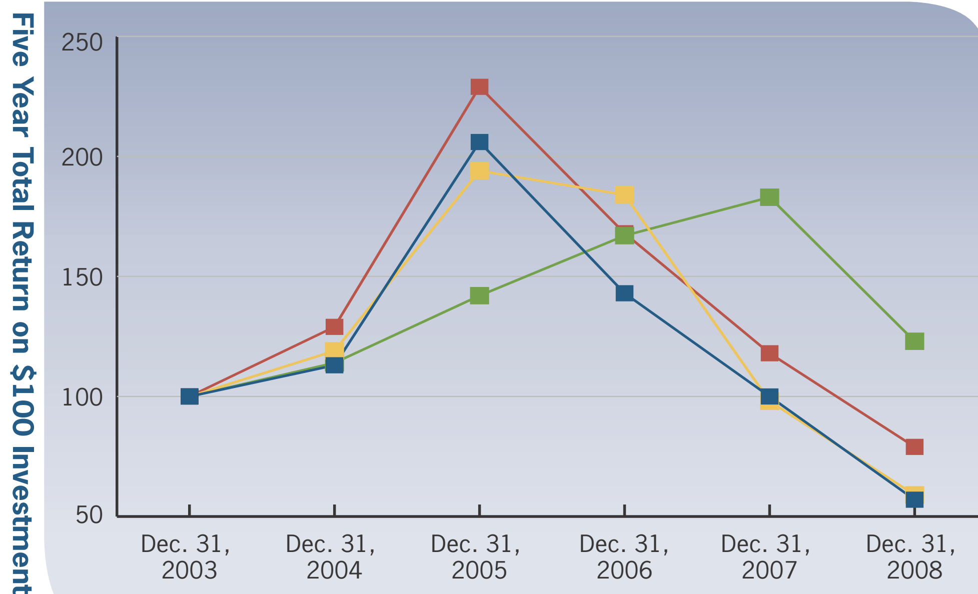
Year-end Equity per Share ($)



Year-end Working Capital (000's)

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, 2003 with the cumulative total return of the S&P/TSX Composite Stock Index over the same period, assuming reinvestment of dividends.



	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008
AKITA Class A	100	113	206	143	100	**57**
AKITA Class B	100	119	194	184	98	**59**
S&P/TSX Composite Index	100	114	142	167	183	**123**
TSX Oil & Gas Drilling Sub-Index	100	129	229	168	118	**79**

Share Performance

All references to weighted average number of Class A Non-Voting and Class B Common shares outstanding, shares traded, prices per share and dividends per share have been retroactively restated to reflect the Company's two-for-one share split implemented on June 8, 2005.

		2004	2005	2006	**2007**	**2008**
Weighted average number of Class A and Class B shares		18,103,392	18,591,334	18,491,237	18,275,846	**18,255,099**
Market prices for Class A Shares	High	$ 13.75	$ 24.20	$ 26.35	$ 18.90	**$ 17.50**
	Low	$ 11.80	$ 13.18	$ 16.20	$ 9.51	**$ 5.70**
	Close	$ 13.49	$ 24.20	$ 16.65	$ 11.39	**$ 6.35**
Volume		4,473,998	4,053,605	4,522,599	4,377,762	**2,553,765**
Market prices for Class B Shares	High	$ 15.50	$ 29.00	$ 28.52	$ 21.50	**$ 18.20**
	Low	$ 12.30	$ 14.75	$ 21.50	$ 11.01	**$ 6.65**
	Close	$ 14.25	$ 23.00	$ 21.50	$ 11.25	**$ 6.65**
Volume		11,914	12,854	13,362	13,135	**7,051**

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.

	2004	2005	2006	2007	**2008**
Dividends paid per share ($)	0.20	0.225	0.24	0.28	**0.28**

Letter to the Shareowners

Although 2008 was a challenging year for AKITA and 2009 continues to demonstrate an unusually high level of uncertainty, we feel that it is important that our shareowners consider their investment in AKITA by taking a balanced approach, and objectively measuring the strengths that the Company has built over its 16 year history when assessing the challenges and opportunities that face it today.

Linda A. Heathcott
Chairman of the Board

John B. Hlavka
Chief Executive Officer

Earnings for the year ended December 31, 2008 were $14,847,000 or $0.81 per share on revenue of $137,246,000. Comparative figures for 2007 were $20,752,000 or $1.14 per share on revenue of $141,962,000. Funds flow from continuing operations for the current year were $34,149,000 as compared to $37,143,000 in 2007.

The Company's rig utilization in 2008 was 42.2% compared to the industry average of 41.7% and AKITA's utilization of 40.9% in 2007. This weak industry wide level of rig utilization dramatically influences the Company's ability to obtain premium pricing for its services. Consequently, AKITA turned some of its attention to new opportunities as a means of optimizing its strong asset base. Early in the year, one rig was deployed from Alaska to Colorado, representing the first time AKITA moved a rig south of Canada. The Company is also performing drilling services for customers having a focus on potash rather than AKITA's traditional oil and natural gas markets.

During the year, the Company took several steps to strengthen its overall fleet. In the first quarter, one 2,000 metre double rig was retired. AKITA disposed of one of its 5,000 metre triple rigs in the second quarter as well as its well servicing business. These reductions related to underperforming assets. During the third quarter, AKITA entered into a multi-year contract with a major customer and spent the balance of the year upgrading two of its rigs in order to fulfil this obligation. In the fourth quarter, a new 3,200 metre double rig was completed at a cost of $7.3 million.

AKITA participates in all major drilling market segments in Western Canada as well as performing drilling services in Canada's Northern Territories, New Brunswick, Alaska and Colorado. The Company maintains a diverse fleet of rigs that includes 12 singles, 15 doubles and 14 triples. At December 31, 2008, six of these rigs had been configured to drill pad locations. This rig fleet diversity supports AKITA's continuing activity and allows AKITA to retain a core of qualified personnel even during periods when particular elements of the drilling cycle, such as natural gas drilling, are out of gerneral favour with AKITA's customers.

In addition to operational strength, AKITA maintains significant financial strength which has placed the company in a strong position to weather the current market conditions. At December 31, 2008 the Company had $63.1 Million in working capital ($3.46 per share) including $42.2 Million in cash ($2.31 per share) and no long-term debt. As well, the carrying value for the Company's fleet was only $146.9 Million ($3.9 Million per rig). Although the evaluation of replacement cost for AKITA's fleet has not been performed, management is confident that the cost to replace the Company's fleet is significantly higher than its carrying value.

Attention to safety training has continually earned the Company one of the lowest accident frequencies in the industry. The 2008 lost time accident frequency of 0.13 per 200,000 hours worked was the best performance in AKITA's history. This surpasses the industry average of 0.95 (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors). The Company has consistently received awards for its safety performance. Managers, employees and subcontractors are all required to understand and accept their responsibility for maintaining a safe working environment. The Company dedicates significant resources to ensure that employees receive the extensive training required to operate safely and efficiently.

On February 20, 2009, the Canadian Association of Oilwell Drilling Contractors revised its industry drilling forecast for 2009 estimating 11,176 wells, compared to 16,844 wells completed in 2008. The current year estimate was based upon commodity price assumptions of Cdn $50 per barrel of crude oil and Cdn $7.00 per mcf of natural gas. To date, commodity prices for both oil and natural gas have fallen short of these revised forecast prices. Consequently, if commodity prices for crude oil and natural gas continue to lag the forecast assumptions, there is an increased risk that the number of wells projected above will not be realized.

Management does not anticipate a significant improvement in market conditions for its rigs until the prices of world crude oil and North American natural gas are sustained at higher levels. Nevertheless, the oil and gas well drilling industry is highly cyclical and, as demonstrated in 2008, higher oil and gas prices could re-emerge at some point in the future. AKITA continues to be very well positioned, having highly trained and dedicated personnel operating first-class equipment. Moreover, the Company's conservative cash management strategy has ensured that the high quality of service that our customers have received in the past does not have to be compromised.

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

We would like to thank one of our founding directors, William Britton, for his leadership, counsel and sage advise over the years. Bill has chaired the The Corporate Governace, Nomination, Compensation and Succession Committee and has been a guiding force and noteable director since its inception. Mr. Britton will not stand for re-election; in 2009 we wish him the best of luck in all future endeavours and thank him once again for his invaluable contributions.

On behalf of the Board of Directors.

Linda A. Heathcott
Chairman of the Board

John B. Hlavka
Chief Executive Officer

March 18, 2009

Operations Review

Drilling activity for 2008 can only be characterized as disappointing. Natural gas prices were not sufficient to motivate substantial drilling activity, particularly for shallow depth conventional wells. A portion of AKITA's rigs are targeted to this market segment and consequently the Company was negatively affected by this slowdown. Further, although record crude oil prices assisted a number of oil and gas producers to generate record annual earnings, drilling activity levels remained below the five year average as demonstrated in the accompanying table:

Rig Utilization Rates (percent)

	2008	2007	2006	2005	2004
AKITA	**42.2**	40.9	56.6	59.3	52.2
Industry	**41.7**	37.0	55.1	58.8	52.9
Difference	**0.5**	3.9	1.5	0.5	(0.7)

AKITA drilled 836 wells for a total of 795,000 metres or approximately 4% percent of the total wells drilled in Western Canada in 2008.

Low drilling activity levels that occurred in most of 2007 and all of 2008 had a correspondingly detrimental impact on the Company's revenue rates.

Revenue per Day

	2008	2007	2006	2005	2004
Revenue per Day	**$21,675**	$23,125	$22,046	$20,233	$19,509
Annual percentage change	**(6.3%)**	4.9%	9.0%	3.7%	12.3%

AKITA operates a well-maintained, diversified and efficient fleet of 39 drilling rigs within the Western Canadian Sedimentary Basin, Canada's northern territories, New Brunswick and Colorado. As well, the Company has joint venture interests in two additional rigs, operated by an independent third party, in Alaska. AKITA's balanced fleet allows the Company to have significant participation in each of the market segments in which it operates – northern drilling, shallow and deep natural gas drilling, conventional oil drilling and pad drilling for both heavy oil and natural gas. AKITA's rig mix ensures that it is able to participate effectively in changing markets. The following table demonstrates the range of drilling capabilities for the Company's fleet:

Drilling Depth Capability

Depth Capacity	AKITA Number of Rigs	AKITA % of Fleet
0 to 950 metres	7	17%
951 to 1850 metres	7	17%
1851 to 2450 metres	2	5%
2451 to 3050 metres	11	27%
3051 to 6700 metres	14	34%
Total	41	100%

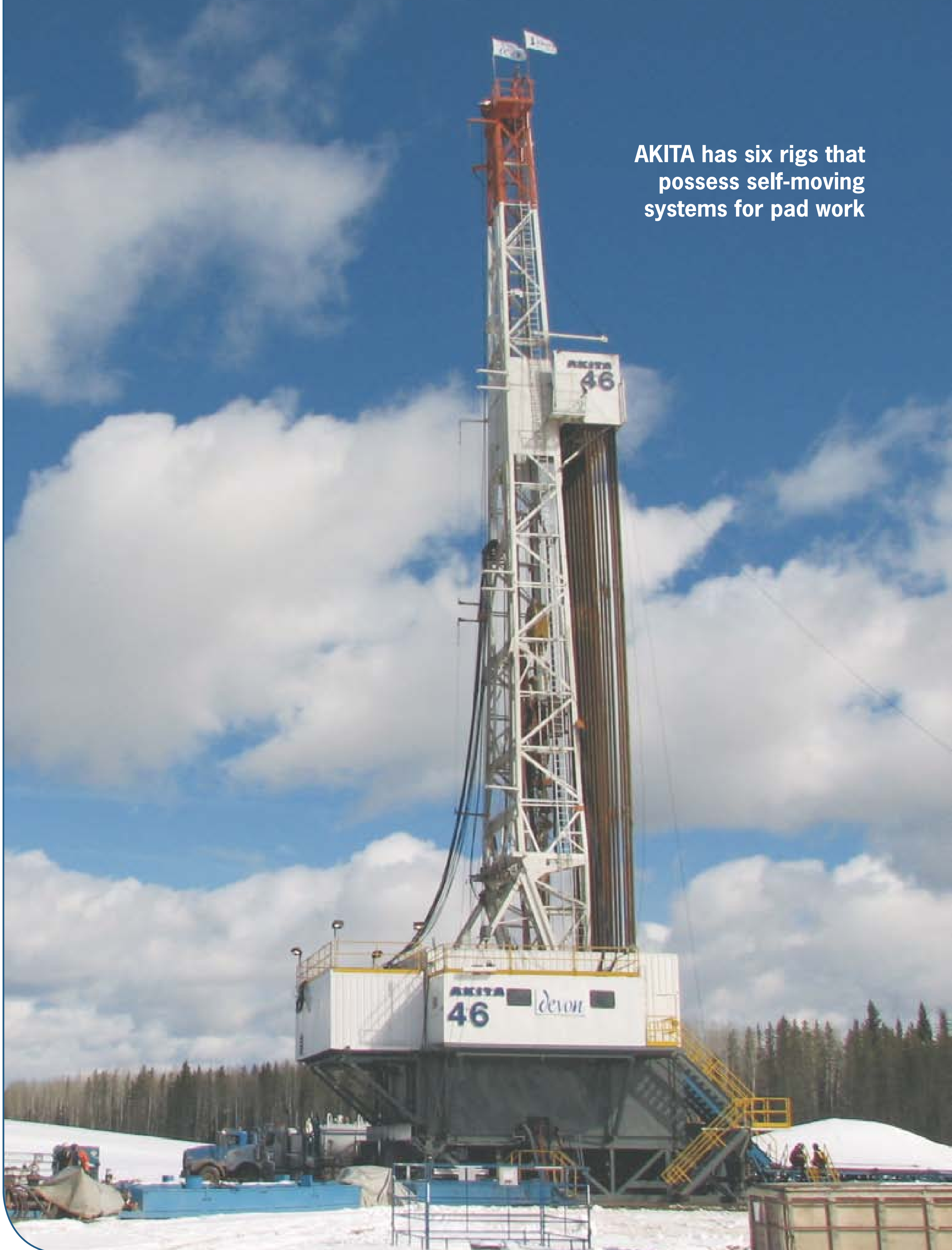
During the second quarter of 2008, the Company sold one of its joint venture deep capacity triple rigs and all of its well servicing rigs. The Company added one 3,200 metre capacity double rig midway through the fourth quarter of 2008. As well, AKITA removed two of its heavy triples out of service for much of the second half of the year in order to retrofit them into pad configurations for drilling natural gas. These rigs will each be moving to long-term contracts in early 2009. At that time, AKITA will have eight rigs that possess self-moving systems for pad work.

AKITA is strongly committed to the ongoing safety of its employees and continually achieves one of the safest working records in the Canadian drilling industry. The Company considers methods to eliminate or reduce hazards in the design of equipment and through the execution of standardized operating procedures. AKITA's lost time accident frequency, which represents lost time accidents per 200,000 hours worked, has been consistently and significantly better than the industry average as demonstrated in the following table:

Lost Time Accident Frequency

	2008	2007	2006	2005	2004
AKITA	**0.13**	0.25	0.46	0.69	0.91
Industry	**0.95**	1.07	1.27	1.57	1.50
AKITA's frequency as a percentage of industry	**13.7**	23.4	36.2	43.9	60.7

AKITA has had a long-standing commitment to ensure that its daily operations do not have a negative impact on the environment. 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 protection programs.



AKITA has six rigs that possess self-moving systems for pad work

Management's Discussion & Analysis

The following sets out management's analysis of the consolidated financial position, consolidated funds flows and consolidated results of operations for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or "the Company") for the years ended December 31, 2008 and 2007. 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 financial statements for 2008 and 2007, including the notes thereto, found on pages 27 to 29, provide information on the Company's financial position, funds flows and results of its operations. The information in this MD&A was approved by AKITA's Board of Directors on March 18, 2009 and incorporates all relevant considerations to that date. All amounts are reported in Canadian dollars.

Introduction

AKITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling operations throughout Western Canada, New Brunswick, Canada's Northern Territories, the North Slope of Alaska and Colorado. 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, the Company specializes in purpose-built arctic and heavy oil pad 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. Of the Company's 41 rigs, 37 were located in Western Canada at December 31, 2008, representing just over 4% of the Western Canadian industry drilling fleet.

During 2008, the company sold 1 drilling rig (0.55 net to AKITA), which represented substantially all of the assets of the Akita Sahcho and Akita Kaska Joint Ventures. As well, during 2008, the company sold its well servicing business which included three well servicing rigs (1.5 net to AKITA). These transactions as well have been classified as "Gain on disposal from discontinued operations." Any operations related to these businesses have been classified as "Discontinued operations" and are described later in this MD&A.

Revenue and Operating & Maintenance Expenses

$Million	2008	2007	Change	% Change
Revenue	**137.2**	142.0	(4.8)	(3%)
Operating & Maintenance Expenses	**87.1**	84.2	2.9	3%

Revenue decreased to $137,246,000 in 2008 from $141,962,000 in 2007 as a result of the continuation of weak market conditions in the drilling sector. Revenue per operating day decreased to $21,675 during 2008 from $23,125 per operating day in 2007 mainly as a result of weaker pricing and reduced standby revenue. Operating and maintenance costs are tied to activity levels and amounted to $87,123,000 or $13,759 per operating day during 2008 compared to $84,185,000 or $13,713 per operating day for the prior year. This increase in operating and maintenance costs was influenced by general oilfield inflation, particularly with respect to labour costs. As a consequence of having lower revenue and higher operating and maintenance expense per day, the overall profit margin (the difference between revenue per day and operating and maintenance costs per day) decreased to $7,916 per day (2007 - $9,411 per day).

The Company's operations are within the contract drilling segment and are conducted in Western Canada, New Brunswick, the Northwest Territories, Yukon Territory, Alaska and Colorado.

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 100% of all revenue generated in 2008 (2007 – 100%). All contracts being performed at the year-end dates of December 31, 2008 and December 31, 2007 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, 2008, AKITA had 38 drilling rigs under management in Canada (35.725 net). In addition, the Company had a 50% interest in two drilling rigs in Alaska and one in Colorado. Consequently, at December 31, 2008, AKITA's drilling rig fleet stood at 41 rigs (37.225 net), one fewer than at the end of 2007 (0.15 additional net). AKITA provided drilling services to 53 customers in 2008 (2007 - 66 customers), including one customer that provided more than 10% of AKITA's revenue for the year (2007 – two customers).

Depreciation Expense

$Million	**2008**	2007	Change	% Change
Depreciation Expense	**16.7**	15.2	1.5	10%

AKITA depreciates its drilling rigs using the unit of production method. Most of these drilling rigs are depreciated based on an estimated service life of 2,000 operating days per drilling rig, although the Company records depreciation on five of its deep drilling rigs over an estimated service life of 3,600 operating days per drilling rig. Unlike other drilling rigs in AKITA's fleet, in particular those that were already owned by AKITA when it became a public company in 1993, the drilling rigs depreciated over 3,600 operating days were newly constructed and are subject to fewer moves than the smaller sized drilling rigs in AKITA's fleet. The increase in depreciation expense to $16,667,000 during 2008, from $15,164,000 during 2007, was mostly attributable to the higher average cost base of AKITA's rigs due to the addition of new rigs as well as a significant decrease in work for the Company's older, less capital intensive rigs. Management assesses the estimated remaining life of its rigs annually. Assets other than drilling rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation. Drilling rig depreciation accounted for 72% of total depreciation expense in 2008 (2007 – 73%).

Selling and Administrative Expenses

$Million	**2008**	2007	Change	% Change
Selling and Administrative Expenses	**16.3**	15.4	0.9	6%

Selling and administrative expenses increased to $16,336,000 in 2008 from $15,426,000 in 2007. Selling and administrative expenses equated to 11.9% of total revenue in 2008, compared to 10.9% of total revenue in 2007 largely as a result of decreased revenue in the current year and a one-time recognition of stock option expense related to the cancellation of stock options. During the second quarter of 2008, the Company cancelled 229,000 stock options resulting in a one-time non cash increase in selling and administrative expenses and a corresponding increase in contributed surplus. As required by Canadian Generally Accepted Accounting Principles (GAAP), this is an accelerated expense of $1,000,000 for the remaining unrecognized value of the cancelled stock options and is reflected in the year in which it occurred rather than over the remaining term of the options.

The single largest component of Selling and Administrative Expenses was salaries and benefits, which accounted for 57% of these expenses (58% in 2007).

Other Income (Expense)

$Million	2008	2007	Change	% Change
Interest Income	**1.8**	1.4	0.4	29%
Gain on Sale of Joint Venture Interests in Rigs and Other Assets	**0.7**	0.9	(0.2)	(22%)
Gain (Loss) on Foreign Currency Translation	**0.5**	(0.8)	1.3	N/A
Other Income (Expense)	**3.0**	1.5	1.5	100%

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income increased to $1,814,000 in 2008, compared to $1,392,000 in 2007 as a result of higher average cash balances.

The gain on sale of joint venture interests in rigs and other assets totalled $673,000 in 2008 compared to $902,000 in the previous year.

As a result of the appreciation of the United States dollar vis-à-vis the Canadian dollar during 2008, the Company recorded a gain from foreign currency translation of $526,000 from its Alaska and Colorado operations compared to a loss of $814,000 in 2007.

Income Tax Expense

$Million	2008	2007	Change	% Change
Current Tax	**3.4**	6.5	(3.1)	(48%)
Future Tax	**3.8**	1.0	2.8	280%
Total Income Taxes	**7.2**	7.5	(0.3)	(4%)

The Company records income taxes using the liability method, thereby recording future income taxes based upon the differences between the financial reporting and income tax bases of assets and liabilities measured using tax rates that are substantively enacted to be in effect when the differences are expected to reverse. Total income tax expense decreased to $7,147,000 in 2008 from $7,525,000 in 2007. Overall income tax expense decreased due to lower pre-tax earnings. Although overall income taxes decreased, future income taxes increased $2,724,000 in 2008 as a result of increased capital cost allowances claimed due to recent additions to AKITA's rig fleet.

Discontinued Operations

$Million	2008	2007	Change	% Change
Gains on Disposals	**1.9**	0.0	1.9	N/A
Discontinued Operations	**(0.1)**	(0.4)	0.3	N/A

In May, 2008, the Company sold one drilling rig (0.55 net to AKITA), which represented substantially all of the assets for the Akita Sahcho and Akita Kaska Joint Ventures. In June, 2008, the Company sold its well servicing business which included three well servicing rigs (1.5 net to AKITA), which represented substantially all of the assets for the Western Oilfield Servicing Joint Venture. Proceeds from these sales totalled $8,150,000 ($4,375,000 net to AKITA) and resulted in an after tax gain of $1,941,000 to the Company.

In both of the above noted disposals, the assets sold were considered as "non-core" and "underperforming". Comparative 2007 results of the operations related to these businesses have been retroactively reclassified as discontinued operations.

Net Earnings and Funds Flow

$Million	2008	2007	Change	% Change
Net Earnings	**14.8**	20.8	(6.0)	(29%)
Funds Flow From Continuing Operations	**34.1**	37.1	(3.0)	(8%)

Net earnings decreased to $14,847,000 or $0.81 per Class A Non-Voting Share and Class B Common Share (diluted - $0.81) for 2008 from $20,752,000 or $1.14 per share (diluted - $1.13) in 2007. Funds flow from continuing operations decreased to $34,149,000 in 2008 from $37,143,000 in 2007.

Current year results were negatively affected primarily by weaker market conditions as well as a one time charge to selling and administrative expense related to the cancellation of stock options. The impact of these events were offset to a limited extent as a result of the sale of one joint venture drilling rig plus the Company's joint venture well servicing rigs. These amounts have been classified as discontinued operations.

Non-GAAP Measure

Funds flow from continuing operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining funds flow from continuing operations may differ from methods used by other companies and involves including operating cash flow before working capital changes. Management and certain investors may find funds flow from continuing 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.

Earnings per Share

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting Shares 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 effect of outstanding stock options is included in the weighted average number of shares. Proceeds that would have been received on exercise of stock options 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.

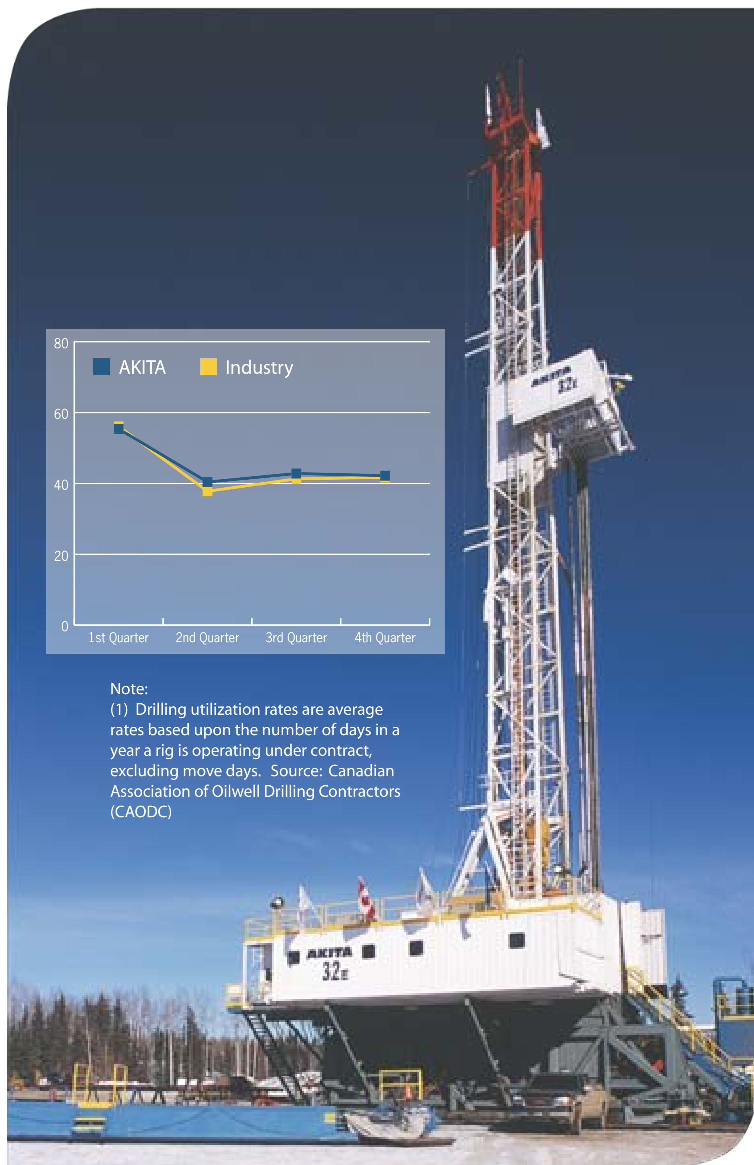
Fleet and Utilization

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 2008, AKITA's utilization rate was 42.2%, which was 1.3 percentage points higher than the previous year and 0.5 percentage points higher than the 2008 industry average. A drilling industry slowdown that began with a general reduction in natural gas prices had an adverse effect on rig utilization. This slowdown was exacerbated in the second half of 2008 due to a significant decline in crude oil prices.

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 some cases, AKITA receives standby revenue to help offset the higher amount of down-time involved in operating in Northern Canada and Alaska. During 2008, the Company had between four and seven rigs in either Canada's northern territories or in Alaska. The actual number of rigs located in these markets varied with the time of year.

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2008, AKITA had nine rigs with multi-year contracts that extend into 2009 or beyond. Of these contracts, two are anticipated to expire in 2009, five in 2010 and the remaining two in 2012.

The graph on the right illustrates AKITA's 2008 drilling utilization rates compared to the industry average.



Note:
(1) Drilling utilization rates are average rates based upon the number of days in a year a rig is operating under contract, excluding move days. Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

The drilling industry is seasonal, with activity building in the fall and peaking during the winter months as northern transportation routes become available, at which time areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak drilling season ends with "spring break-up", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

In addition to traditional seasonal impacts, the business of AKITA could be affected in two important ways as a result of warmer than normal temperatures. First, increases in overall temperatures would have the effect of shortening the winter drilling season, especially in remote and northern locations. The most dramatic impacts of warmer than normal temperatures on the Company have been noted in Northern Canada, where the typical drilling season has shortened. As a result, it has been common for the Company to work with its customers and suppliers in regions such as the Mackenzie Delta, to locate certain key pieces of equipment in "staging areas" during the summer to reduce the overall winter moving distances. Another impact of warmer than normal temperatures on AKITA is related to a reduced demand for natural gas for heating. To the extent that this impacts the commodity price for natural gas, AKITA's customers might reduce natural gas drilling activity, which in turn, might reduce the demand for AKITA's services.

Competition in the Canadian drilling industry is affected by the overall size of the drilling fleet, in addition to the level of demand by customers of that fleet. At December 31, 2008 there were 865 drilling rigs

registered with the CAODC (December 31, 2007 – 890). AKITA's Canadian drilling fleet of 38 rigs (out of the total Company's fleet of 41 rigs) represented 4.4% of the total Canadian drilling fleet at December 31, 2008 (December 31, 2007 – 4.4%).

Changes in the level of operations have a corresponding impact on financial results. The following table shows the quarterly impact on AKITA's operations for the past three years:

Three Months Ended (Dollars in thousands, except per share • Unaudited)

	Mar. 31	June 30	Sept. 30	Dec. 31
2008				
Revenue	**48,126**	**20,278**	**33,747**	**35,095**
Net Earnings	**7,647**	**1,498**	**3,681**	**2,021**
Basic Earnings per share	**0.42**	**0.08**	**0.20**	**0.11**
Diluted Earnings per share	**0.42**	**0.08**	**0.20**	**0.11**
Cash flow from operations	**(1,325)**	**19,815**	**(6,342)**	**22,001**
2007				
Revenue	52,170	27,315	29,804	32,673
Net Earnings	9,087	3,091	2,196	6,378
Basic Earnings per share	0.50	0.17	0.12	0.35
Diluted Earnings per share	0.50	0.16	0.12	0.35
Cash flow from operations	(11,120)	26,074	6,647	17,275
2006				
Revenue	61,195	32,929	38,856	41,563
Net Earnings	11,002	7,548	6,850	8,355
Basic Earnings per share	0.59	0.41	0.37	0.46
Diluted Earnings per share	0.59	0.40	0.37	0.45
Cash flow from operations	3,878	27,825	4,798	24,651

During the fourth quarter of 2008, rig activity for the Company included 1,544 operating days compared to 1,450 operating days during the corresponding period in 2007. Weak demand for drilling rigs in the fourth quarter of 2007 continued throughout all of 2008. As a direct result of ongoing weak drilling activity levels, although revenue rates equated to $22,730 per operating day in the fourth quarter of 2008 versus $22,595 in the fourth quarter of 2007, operating costs rose to $16,473 per day compared to $13,205 in the corresponding quarter of 2007. This significantly larger increase in operating costs per operating day had the effect of reducing overall profit margins for the Company. As well, during the fourth quarter of 2007 the Company recorded a future tax reduction of $2,099,000 as a consequence of rate reductions announced by the federal government at that time. In the fourth quarter of 2008, there were no favourable tax announcements that impacted the Company. Consequently, earnings, earnings per share and funds flow from operations were all lower than for the fourth quarter of 2007.

Overall liquidity increased at December 31, 2008 compared to the corresponding 2007 year-end date by $13,966,000 as measured in terms of overall working capital. Year over year working capital increased primarily as a result of the lower overall level of capital expenditures during the year. AKITA's cash balance at December 31, 2008 was $42,168,000 (2007 - $43,166,000).

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

Three Year Summary (Dollars in thousands, except per share) (Unaudited)	**2008**	2007	2006
Revenue	**137,246**	141,962	174,543
Net Earnings	**14,847**	20,752	33,755
Basic Earnings per share	**0.81**	1.14	1.83
Diluted Earnings per share	**0.81**	1.13	1.81
Dividends per Class A Non-Voting and Class B Common Share	**0.28**	0.28	0.24
Funds flow from continuing operations	**34,149**	37,143	47,199
Working capital	**63,089**	49,123	56,681
Other long-term liabilities	**22,672**	18,664	17,383
Shareholders' equity	**198,461**	188,038	172,873
Total Assets	**242,869**	223,522	222,237

Liquidity and Capital Resources

AKITA has typically generated sufficient funds 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 and occasionally in years when new rigs are added to the fleet, the Company typically restricts capital expenditures to less than 50% of funds flow from operations. In 2008, AKITA's net capital expenditure program of $19,567,000 represented 57% of funds flow from continuing operations and included upgrade costs for two existing pad rigs, in addition to other routine capital expenditures.

At December 31, 2008, AKITA had $63,089,000 in working capital including $42,168,000 in cash, compared to $49,123,000 in working capital, including $43,166,000 in cash, for the previous year. In 2008, AKITA generated $34,149,000 in funds from continuing operations. Cash was also generated through proceeds from the sale of discontinued operations ($3,510,000), on sales of joint venture rigs and other assets ($1,435,000) and from discontinued operations ($24,000). During the same period, cash was used for capital expenditures ($19,567,000), payment of dividends ($5,111,000) and repurchasing share capital ($474,000). As well, non-cash working capital decreased by $14,964,000 during the year.

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 a general security agreement covering substanially all of the company's assets. The total amount of available financing varies with receivable balances. No loan was outstanding at either December 31, 2008 or December 31, 2007.

During 2008, the Company repurchased 44,625 Class A Non-Voting Shares at an average price of $10.63 pursuant to its Normal Course Issuer Bid.

In 2004, AKITA relocated and entered into a lease for its head office. In 2008, the cost for this lease was $412,000. The lease expires on December 31, 2009.

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

Contractual Obligations (Dollars in Thousands)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Operating Leases	**412**	412	Nil	Nil	Nil
Purchase obligations	**1,049**	340	709	Nil	Nil
Pension obligations	**3,854**	15	Note	Note	Note
Total contractual obligations	**5,315**	767	709	Nil	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost from year one to three ranges from $45,000 to $1,001,000, from year four to five ranges from $30,000 to $762,000 with the balance being due after five years in any event.

Financial Instruments

The Company's financial assets and liabilities include cash, accounts receivable, restricted cash and accounts payable. 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 be generally low as substantially all counterparties are well established and financed oil and gas companies. AKITA has detailed credit-granting procedures and in certain situations may require customers to make advance payment prior to provision of services or take other measures to help reduce credit risk. Provisions have been estimated by management and included in the accounts to recognize 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 to Spruce Meadows, an equestrian show jumping facility, 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 $320,000 and relate to the purchase of wellsite trailers ($311,000) and other miscellaneous purchases ($9,000). Operating purchases totalled $650,000 and included sponsorship and advertising ($330,000), shared employee services ($188,000) and other miscellaneous purchases ($132,000). In 2004 and in 2006, the Company entered into multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2008, the remaining commitment was $1,049,000. Costs incurred related to this contract during 2008 were $330,000 (2007 - $321,000). Costs and related services are consistent with parties dealing at arms length.

Class A and Class B Share Dividends

Per Share	**2008**	2007	Change	% Change
Dividends per share	**0.28**	0.28	0.00	0%

During 2008, AKITA paid dividends totalling $5,111,000 ($0.28 per share) on its Class A Non-Voting Shares and Class B Common Shares, compared to $5,117,000 ($0.28 per share) for 2007. 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. The most recent dividend was declared on March 18, 2009 with a dividend rate of $0.07 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, 2006	16,668,258	22,074	1,654,284	1,366	18,322,542	23,440
Shares repurchased	(55,300)	(71)	—	—	(55,300)	(71)
December 31, 2007	16,612,958	22,003	1,654,284	1,366	18,267,242	23,369
Shares repurchased	(44,625)	(57)	—	—	(44,625)	(57)
December 31, 2008	**16,568,333**	**21,946**	**1,654,284**	**1,366**	**18,222,617**	**23,312**
Exerciseable Options at Dec. 31, 2008	165,500					
Unexerciseable Options at Dec. 31, 2008	16,500					

At March 18, 2009, the Company had 16,572,333 Class A Non-Voting Shares and 1,654,284 Class B Common shares outstanding. At that date, there were also 178,000 stock options outstanding, of which 164,000 were exercisable.

Capital Assets

Capital expenditures totalled $19,567,000 in 2008. Over one half of this amount related to the cost to construct one new 3,200 metre capacity rig and to commence the upgrade and retrofit of two additional rigs that are being converted into pad drilling configurations ($11,447,000). Additional capital expenditures relate to rig equipment for existing rigs ($5,615,000), drill pipe and drill collars ($1,643,000) and vehicles and other equipment ($862,000). Capital expenditures for 2007 totalled $40,948,000.

During 2008, AKITA and its joint venture partners disposed of one joint venture rig and its fleet of well servicing rigs. These disposals generated $3,510,000 for AKITA and have been characterized as discontinued operations. The Company also sold one of its arctic drilling camps as well as other underutilized assets. Proceeds from these disposals totalled $1,435,000.

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 drilling rig fleet was $3.9 million per net drilling rig, the same as at the end of 2007.

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 funds flows) will

be achieved over remaining service lives. No adjustments were made in 2008 or 2007 to carrying values as a result of this review.

Joint Ventures

The Company conducts certain operations in Canada's Northern Territories, Southern Canada, Alaska and Colorado via joint ventures. Ownership in and results of operations 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.

Since 2000, AKITA has constructed seven drilling rigs under joint ventures. As part of the agreements to construct each rig, term contracts lasting four or more years each were entered into with customers. Three of the initial term contracts expired in 2005 and one expired in 2006. The remaining three initial term contracts expire in 2009, 2010 and 2011.

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

(Dollars in thousands)	**2008**	2007
Current assets	**2,863**	5,842
Capital assets, net of depreciation	**60,041**	62,239
Current liabilities	**1,563**	4,257
Revenue	**27,786**	27,505
Expenses	**21,516**	22,671
Net earnings	**6,270**	4,834
Cash flow from operating activities	**10,879**	9,237
Cash flow from financing activities	—	—
Cash flow from investing activities	**4,752**	(8,823)

Accounting Estimates

The preparation of AKITA's financial statements includes significant estimates relating to the useful lives of drilling rigs. Based upon a detailed assessment of the age and quality as well as the type of wells being drilled by each rig, management determines the likely useful remaining life for each rig. Current life estimates for new drilling rigs range from 2,000 operating days to 3,600 operating days. Current life estimates for newly rebuilt drilling 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 in less than five years. However, if insufficient depreciation is charged over longer periods, a possibility exists for a 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 carried in excess of realizable values.

An additional significant estimate used in the preparation of AKITA's financial statements relates to the defined benefit pension liability for selected employees that was recorded as $3,854,000 at December 31, 2008 (2007 - $3,609,000). AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, as the defined benefit pension is an unfunded non-cash item. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2008, key assumptions relate to the use of a 6.50% discount rate as well as a 3% estimate for the annual rate of compensation growth. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the recording of the company's defined benefit pension liability. This pension is an unfunded liability of the company.

Commitments

During 2007, AKITA guaranteed bank loans made to joint venture partners totalling $4.5 Million for a period of four years. AKITA has provided an assignment of monies on deposit totalling $5 Million with respect to these guarantees. AKITA's security from its partners for these guarantees includes interests in specific rig assets. The $5 Million in deposits have been classified as restricted cash on the balance sheet and are in addition to the $42.2 Million in general cash held at December 31, 2008.

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 crude oil prices 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.

In addition to the management of strategic risks included above, the success of AKITA also depends on other factors, including competition due to increased capacity in the Canadian fleet as well as technological advances in drilling methods and rig designs and the management of operational, reporting and compliance risks.

AKITA manages its risks in these areas by:

- developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures
- maintaining a low cost structure for the Company, including limited use of financial leverage
- obtaining multi-year rig contracts whenever possible, but particularly when associated with the construction of new rigs
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program
- constantly upgrading its rig fleet
- employing well trained, experienced and responsible employees
- ensuring that all employees comply with clearly defined safety standards

- improving the skills of its employees through training programs
- maintaining effective systems of internal control to safeguard assets and ensure timely and accurate reporting of financial results
- maintaining comprehensive insurance policies with respect to its operations
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures

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.

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 and Alaska is an important aspect of AKITA's operations. Special challenges are present in order to operate effectively in these areas. The North represents a small part of the total North American 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.

Accounting Standards

Effective January 1, 2008, the Company adopted two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements.

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535 "Capital Disclosures," which requires entities to disclose their objectives, policies and processes for management of capital, and in addition, whether the entity has complied with any externally imposed capital requirements.

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400 "Going Concern" which requires management to make an assessment of an entity's ability to continue as a going concern. The Company has evaluated the impact of this new standard on its consolidated financial statements and determined that no additional disclosures are required at this time.

Changeover Plan for IFRS

The Canadian Accounting Standards Board recently confirmed January 1, 2011 as the date International Financial Reporting Standards (IFRS) will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises including AKITA Drilling Ltd.

Changing from Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's financial position and results of operations. It may also affect certain business functions. This section of the MD&A is the Company's first formal communication with respect to IFRS and is intended to provide investors and other participants timely and meaningful information about these matters and will be updated during reporting periods leading up to AKITA's changeover to IFRS.

The following table provides an assessment of the Company's changeover plans as at December 31 2008:

Key Activity	Milestones / Deadlines	Status
Financial Statement Preparation: • Identify differences in Canadian GAAP/IFRS 1 accounting policies. • Select Company's ongoing IFRS policies. • Select Company's ongoing IFRS 1 choices. • Develop financial statement format. • Quantify effects of change in initial IFRS 1 disclosures and 2010 financial statements.	Senior management sign off and audit committee review for all items by the time planning commences for 2011 fiscal year (expected timing: Q3, 2010).	Significant accounting policy choices identified. Analysis of issues underway.
Key Activity	**Milestones / Deadlines**	**Status**
General Infrastructure: Define and introduce appropriate level of IFRS expertise for each of the following: • Accounting staff. • Senior management. • Board of Directors including Audit Committee.	Appropriate level of expertise by the time 2010 conversion exercise commences (expected timing: Q2, 2010).	Leadership team/expert resources identified. Initial training in progress.
IT Infrastructure: Make information technology fully compliant for all of: • Systematic processing changes. • Program upgrade changes. • One-off calculations (IFRS 1). • Gathering data for disclosures. • Scope of consolidation package. • Budget/plan/forecast monitoring process.	Ready for parallel processing of 2010 accounting records and for planning/monitoring process (expected timing: Q3, 2009).	Scoping study underway.

Chart continued ...

Business Policy Assessment: Customer and supplier contracts • Evaluate impact on customer and supplier contracts.	Complete review of customer/ supplier contracts and revenue/cost recognition models by end of 1st quarter, 2010.	All revenue contracts and supply contracts assembled. Process of evaluating IFRS Consequences on contracts underway.
Business Policy Assessment: Capital adequacy • Identify impact on capital adequacy. • Revise capital plan.	Complete capital plan by end of 2nd quarter, 2010.	Process of identifying issues underway.
Business Policy Assessment: Compensation arrangements • Identify impact on compensation arrangements. • Make required changes.	Revise arrangements by end of 3rd quarter, 2010.	Process of identifying metrics affected by GAAP/IFRS differences underway.
Business Policy Assessment: Financial covenants	Completed review at end of 2008.	No changes to existing line of credit (no other loans).
Control Environment ICFR: • For all accounting policy changes identified, assess ICFR design and effectiveness implications. • Implement appropriate changes.	Assuming sign off and review of all accounting policy implications by management and audit committee by 3rd quarter, 2010 (see above), conduct implementation audit during 4th quarter, 2010. Update CEO/CFO certification process by end of 4th quarter, 2010.	Analysis of issues underway in conjunction with review of accounting policies. Documentation being updated.

Control Environment DC&P:
• For all accounting policy changes identified, assess DC&P design and effectiveness implications.
• Implement appropriate changes, in particular:
  • Ensure investor communications fully IFRS compliant re: forward looking information.
  • Revise MD&A communications package.
	See ICFR deadlines above.
	Publish impact of conversion on key performance indicators in 3rd quarter, 2010 MD&A.
	Publish material changes in policies and expectations by January, 2011.
	Publish revised 2010 results and MD&A by March 30, 2011.
		MD&A drafts being updated.

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 crude oil and natural gas prices and changes in the exploration and development budgets of its customers.

The global credit crisis, which manifested itself in the second half of 2008, has had a major, but indirect influence on the Company in a number of ways.

First, credit availability for AKITA's customers has been diminished. Although the Company is self-sustaining for capital requirements, many of its customers rely on equity and debt markets to augment their internally generated cash flows. The extent to which capital is not available to AKITA's customers or is more costly than in previous years will probably have an adverse impact on their level of capital expenditures and may negatively influence the amount of drilling that the Company may provide under this negative financial environment.

Additionally, overall North American demand for crude oil and natural gas has decreased since the onset of the global financial crisis. This reduction in demand has resulted in increased inventory levels for these commodities, and consequently, lower overall prices for both crude oil and natural gas. Lower commodity prices for the two commodities that are responsible for virtually all of the Company's activities have typically correlated to lower overall activity levels.

Primarily as a consequence of the foregoing factors, AKITA's prospects appear to be less positive in the short-term, compared to the results generated in 2008. On February 20, 2009, the CAODC revised its industry drilling forecast for 2009 estimating 11,176 wells, compared to 16,844 wells completed in 2008. Year-to-date activity levels for 2009 are trailing last year's levels. Management does not anticipate a significant improvement in market conditions until the prices of natural gas and crude oil are sustained at higher levels. AKITA remains well positioned for any turnaround in drilling activity as a result of participating in all of the significant drilling market segments – shallow, medium, deep and pad.

During 2005 and 2006, the Company entered into two four-year contracts through one of its joint ventures with large corporations for which the Company constructed two drilling rigs to be used on the North Slope of Alaska.

During 2007, the Company commenced a long-term contract with a private corporation to provide drilling services with one of its new heavy oil pad rigs. This contract has an initial term of four years.

During 2008, the Company entered into long-term contracts with a large corporation for the provision of two of its existing rigs. Special retrofits were taking place at year-end to convert these rigs into self-moving pad configurations. Both rigs will commence work under these contracts in 2009.

Longer term, the Company is well positioned in terms of drilling potential for shallow and deep natural gas, heavy and conventional oil and to take advantage of any increasing activity in Northern Canada and Alaska. AKITA's strategy over the past years has been to develop equipment and key relationships to effectively target these specific market opportunities.

Since AKITA's growth strategy focuses on the addition of drilling rigs primarily through the attainment of term contracts using limited financial leverage, other capital spending is typically restricted to 50% of cash flow from operations in most years.

Disclosure Controls and Internal Controls Over Financial Reporting

As of December 31, 2008, the Company's management evaluated the effectiveness of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer.

Disclosure Controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, does not expect that the Company's Disclosure Controls will prevent or detect all errors or all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error within the Company, if any, have been detected.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Company's Disclosure Controls are effective in ensuring that material information relating to the Company is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

As of December 31, 2008, the Management of the Company evaluated the effectiveness of internal control over financial reporting ("Internal Control Over Financial Reporting"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. 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 for external purposes in accordance with generally accepted accounting principles.

Internal Control Over Financial Reporting, no matter how well designed, has inherent limitations. Therefore, Internal Control Over Financial Reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes in the Company's Internal Controls Over Financial Reporting that have occurred during the year, including the three months ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control Over Financial Reporting.

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 prices and North American natural gas prices; weather; access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 18, 2009. Copies of this information including additional copies of the Annual Report for the year ended December 31, 2008 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 900, 311 – 6th Avenue S.W., Calgary, Alberta, T2P 3H2 or at www.sedar.com.

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 accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements including estimates related to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined benefit pension liability and assumptions around future income tax calculations. Financial information throughout this Annual Report is consistent with the consolidated financial statements.

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. This system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, Internal Control – Integrated Framework. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in Canada. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated financial statements and have had full access to the Audit Committee. Their report appears on page 26.

The Board of Directors, through its Audit Committee comprised of two independent directors as defined in multilateral instrument 52-110 – Audit Committees ("MI 52-110"), and one director who is exempt from the independence requirements of MI 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.

John B. Hlavka
Chief Executive Officer

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

Auditors' Report

To the Shareholders of AKITA Drilling Ltd.

We have audited the consolidated balance sheets of AKITA Drilling Ltd. as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income and retained earnings and cash flows for each of the years in the two year period ended December 31, 2008. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Calgary, Alberta

March 18, 2009

Consolidated Balance Sheets

December 31 ($000's of Canadian Dollars)		2008	2007
Assets			
Current Assets			
Cash and cash equivalents		**$ 42,168**	$ 43,166
Accounts receivable		**41,534**	22,505
Other		**1,123**	272
		84,825	65,943
Restricted cash	Note 16	**5,000**	5,000
Capital assets	Note 2	**153,044**	152,579
		$ 242,869	$ 223,522
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 20,061**	$ 13,051
Dividends payable		**1,276**	1,279
Income taxes payable		**399**	873
Deferred revenue		**—**	1,617
		21,736	16,820
Future income taxes	Note 9	**18,818**	15,055
Pension liability	Note 5	**3,854**	3,609
Class A and Class B Shareholders' Equity			
Class A and Class B shares	Note 6	**23,312**	23,369
Contributed surplus		**2,271**	1,110
Retained earnings		**172,878**	163,559
		198,461	188,038
		$ 242,869	$ 223,522

Approved by the Board

Director

Director

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

Year ended December 31 ($000's of Canadian Dollars, except per share)		2008	2007
Revenue		**$ 137,246**	$ 141,962
Costs and Expenses			
Operating and maintenance		**87,123**	84,185
Depreciation		**16,667**	15,164
Selling and administrative		**16,336**	15,426
		120,126	114,775
Revenue less costs and expenses		**17,120**	27,187
Other income (expense)			
Interest income		**1,814**	1,392
Gain on sale of joint venture interests in rigs and other assets		**673**	902
Gain (loss) on foreign currency translation		**526**	(814)
		3,013	1,480
Earnings before income taxes		**20,133**	28,667
Income taxes			
Current		**3,384**	6,486
Future		**3,763**	1,039
	Note 9	**7,147**	7,525
Earnings from continuing operations		**12,986**	21,142
Gain on disposal from discontinued operations, net of tax	Note 18	**1,941**	—
Discontinued operations, net of tax	Note 18	**(80)**	(390)
Net Earnings and Comprehensive Income		**14,847**	20,752
Retained earnings, beginning of year		**163,559**	148,781
Dividends declared		**(5,111)**	(5,117)
Adjustment on repurchase and cancellation of share capital	Note 6	**(417)**	(857)
Retained Earnings, end of year		**$ 172,878**	$ 163,559
Earnings per Class A and Class B share from continuing operations	Note 7		
Basic		**$ 0.71**	$ 1.16
Diluted		**$ 0.71**	$ 1.15
Earnings per Class A and Class B share	Note 7		
Basic		**$ 0.81**	$ 1.14
Diluted		**$ 0.81**	$ 1.13

Consolidated Statements of Cash Flows

Year ended December 31 ($000's of Canadian Dollars)		2008	2007
Operating Activities			
Net earning		$ 12,986	$ 21,142
Non-cash items included in earnings			
Depreciation		16,667	15,164
Future income taxes		3,763	1,039
Expense for defined benefit pension plan		245	242
Stock options charged to expense		1,161	458
Gain on sale of joint venture interests in rigs and other assets		(673)	(902)
Funds flow from continuing operations		34,149	37,143
Cash provided from (to) discontinued operations	Note 18	24	(151)
Change in non-cash working capital		(14,806)	1,884
		19,367	38,876
Investing Activities			
Capital expenditures		(19,567)	(40,948)
Proceeds on sales of joint venture interests in rigs and other assets		1,435	7,443
Proceeds on sales of discontinued assets	Note 18	3,510	—
Cash restricted for loan guarantees		—	(5,000)
Change in non-cash working capital		(158)	(1,081)
		(14,780)	(39,586)
Financing Activities			
Dividends paid		(5,111)	(5,117)
Repurchase of share capital		(474)	(928)
Change in non-cash working capital		—	(6)
		(5,585)	(6,051)
Decrease in Cash		(998)	(6,761)
Cash position, beginning of year		43,166	49,927
Cash Position, end of year		$ 42,168	$ 43,166
Interest paid during the year		$ 48	$ 376
Income taxes paid during the year		$ 4,377	$ 11,400

Notes to Consolidated Financial Statements

December 31, 2008

1. Summary of Significant Accounting Policies

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of AKITA Drilling Ltd., its subsidiaries and a proportionate share of its joint venture entities (consisting of drilling rigs).

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. On meterage contracts, work in progress is based upon the depth drilled. The receipt of unearned contract revenue is recorded as deferred revenue until the contracted passage of time has occurred.

Capital Assets and Depreciation

Capital assets are recorded at cost. Costs associated with equipment upgrades that result in increased capabilities or performance enhancements of capital assets are capitalized. Cost incurred to repair or maintain capital assets are charged to expense as incurred.

Drilling rigs are depreciated using the units 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. Drilling rigs are subject to certain minimum annual depreciation.

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.

Other assets 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 8. The Company records compensation expense and contributed surplus, based on the estimated fair value, over the vesting period for stock options granted in 2003 and subsequent years. Any consideration paid by employees on exercise of stock options is credited to share capital along with the related contributed surplus.

Compensation expense for share appreciation rights is accounted for using the intrinsic value method and is accrued monthly based upon the excess of the 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.

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 enacted or 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 plan and group Registered Retirement Savings Plan ("RRSP") are expensed as incurred.

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, the United States and some of its activities in Southern Canada through joint ventures. Ownership in, and results of operations from these joint ventures are recorded under the proportionate consolidation method whereby only the Company's share of the assets, liabilities, revenue and expenses are recognized.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash and highly liquid short-term investments with maturity of three months or less.

Financial Instruments and Credit Risk

The Company's financial assets and liabilities include cash and cash equivalents, restricted cash, accounts receivable and accounts payable. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated. The Company has adopted the following classification for financial assets and liabilities:

- Cash equivalents and restricted cash are classified as "Held to Maturity"
- Accounts receivable are classified as "Loans and Receivables"
- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities".

Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Foreign currency income and expenses are translated at average exchange rates prevailing throughout the year. Unrealized translation gains and losses and all realized gains and losses are included in Other Income.

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, as well as the reported amounts for revenue and expenses during the year. Significant estimates used in the preparation of these financial statements include estimates relating to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, projections of the drilling rig's undiscounted future cash flows for use in assessing rig asset impairment conditions, the measurement of the defined benefit pension liability and assumptions around future income tax calculations. Actual results could differ from these estimates.

2. Capital Assets

(Dollars in thousands)	**2008**		2007	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Drilling and well service rigs (note) and related equipment	**$ 259,409**	**$ 112,749**	$ 247,477	$ 101,441
Other	**10,480**	**4,096**	9,680	3,137
	$ 269,889	**$ 116,845**	$ 257,157	$ 104,578
Net Book Value	**$ 153,044**		$ 152,579	

Note: The Company sold all of its well service rigs during 2008

3. Credit Line

The Company had a credit line totalling the lesser of $10,000,000 or 80% of accounts receivable at bank prime secured by a general assignment of accounts receivable. This line was not drawn upon at December 31, 2008 or at December 31, 2007.

Subsequent to year-end, this credit line was replaced by a $10,000,000 operating loan facility at bank prime secured by a general security agreement covering substantially all of the Company's assets.

4. Long Term Debt

During 2008, the Company cancelled its renewable borrowing facility of up to $20,000,000 bearing interest at bank prime.

5. 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.

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, is non-contributory and unfunded.

No current service cost was incurred in either 2008 or 2007.

(Dollars in thousands)	2008	2007
Accrued benefit obligation as at January 1	$ 3,609	$ 3,367
Interest cost	210	204
Benefits paid	(15)	(15)
Actuarial loss	50	53
Accrued benefit obligation as at December 31	3,854	3,609
Unamortized net (gains) losses	(420)	203
Unamortized transitional obligation	170	201
Actuarial present value of defined benefit obligation	$ 3,604	$ 4,013

Assumptions

(per cent)	2008	2007
Discount Rate	6.50	5.25
Rate of compensation growth	3.0	3.0

The Company obtains an annual actuarial valuation subsequent to each year-end from an independent actuary. The most recent evaluation was dated January 23, 2009 and was utilized in measuring the December 31, 2008 and 2007 year-end balances as well as related activities during each of these respective years.

During the year, the Company charged $3,569,000 to expense in respect of its defined contribution pension plan (2007 - $3,828,000) and $245,000 to expense in respect of its defined benefit pension plan (2007 - $242,000).

6. 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, 2006	16,668,258	$22,074	1,654,284	$1,366	18,322,542	$23,440
Shares repurchased	(55,300)	(71)	—	—	(55,300)	(71)
December 31, 2007	16,612,958	$22,003	1,654,284	$1,366	18,267,242	$23,369
Shares repurchased	(44,625)	(57)	—	—	(44,625)	(57)
December 31, 2008	**16,568,333**	**$21,946**	**1,654,284**	**$1,366**	**18,222,617**	**$23,312**

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.

For substantially all of 2007 and 2008, the Company had outstanding normal course issuer bids for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2007, 55,300 shares were repurchased and cancelled under normal course issuer bids at a cost of $928,000 of which $71,000 was charged to share capital and $857,000 to retained earnings. In 2008, 44,625 shares were repurchased and cancelled under the aforementioned bids at a cost of $474,000 of which $57,000 was charged to share capital and $417,000 to retained earnings. The most recent offer will expire on August 4, 2009.

7. Earnings per Share

	2008	2007
Net earnings (Dollars in thousands)	**$ 14,847**	$ 20,752
Weighted average outstanding shares	**18,255,099**	18,275,846
Incremental shares	**35,128**	85,289
Basic earnings per share from continuing operations ($)	**$ 0.71**	$ 1.16
Diluted earnings per share from continuing operations ($)	**$ 0.71**	$ 1.15
Basic earnings per share ($)	**$ 0.81**	$ 1.14
Diluted earnings per share ($)	**$ 0.81**	$ 1.13

8. Stock Based Compensation Plans

At December 31, 2008, the Company had two stock-based compensation plans, which are described below.

Subject to the approval of the Company's Board of Directors, the Company's Corporate Governance, Nomination, Compensation and Succession Committee, may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting shares. A maximum of 1,700,000 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 (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.

A summary of the status of the Company's stock based compensation plans as of December 31, 2008 and 2007, and changes during the years ended on those dates is presented below:

	2008		2007	
	Options	Weighted Average Exercise Price ($)	Options or SARs	Weighted Average Exercise Price ($)
Outstanding at beginning of year (options and SARs)	**411,000**	**16.19**	451,000	13.85
Granted	—	—	—	—
Exercised (SARs)	—	—	(40,000)	4.49
Cancelled (Options)	**(229,000)**	**22.44**	—	—
Expired	—	—	—	—
Outstanding at end of year (options)	**182,000**	**8.33**	411,000	16.19
Options exercisable at year-end	**165,500**	**8.17**	213,900	11.99
SARs exercisable at year-end	—	—	—	—

The following table summarizes information about stock based compensation plans at December 31, 2007:

Nature of Compensation	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
Options	3.695	4,000	0.1	4,000
Options	4.295	4,000	1.0	4,000
Options	5.400	6,000	0.3	6,000
Options	5.400	52,000	2.0	52,000
Options	8.405	2,000	3.6	2,000
Options	9.940	6,000	0.3	6,000
Options	9.940	102,000	4.2	85,500
Options	13.490	6,000	0.3	6,000

The Company did not record any expense with respect to share appreciation rights in either 2007 or 2008.

On June 2, 2008, the Company cancelled 229,000 stock options having exercise prices of $22.25 to $22.48 per option. This resulted in a one-time non cash increase of $1,000,000 ($840,000 net of future income taxes) in selling and administrative expense and a corresponding increase in contributed surplus. As required by Canadian Generally Accepted Accounting Principles (GAAP), this is an accelerated expense of $1,000,000 for the remaining unrecognized value of the cancelled stock options and is reflected in the year in which it occurred rather than over the remaining term of the options.

During 2008, the Company recorded compensation expense and a corresponding increase to contributed surplus of $1,161,000 for options granted since 2003 (2007 - $458,000). The 2008 expense included the adjustment described in the preceding paragraph. Compensation expense was determined using the Black-Scholes Model.

9. Income Taxes

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

(Dollars in thousands)	2008	2007
Earnings before income taxes	$ 20,133	$ 28,667
Expected income tax at statutory rate of 30.38% (2007 - 33.68%)	6,116	9,655
Add (Deduct)		
Increase (reduction) in future income tax rates	178	(2,099)
Permanent differences	420	216
Large corporations tax and other	433	(247)
Income tax expense	$ 7,147	$ 7,525

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

(Dollars in thousands)	2008	2007
Capital assets	$ 71,089	$ 58,550
Employee pension benefits	(3,870)	(3,627)
Other	(441)	1,748
	66,778	56,671
Expected future income tax rate	28.18%	26.57%
Future income taxes at expected tax rate	$18,818	$15,055

10. Related Parties

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 was considered to be at fair market value.

(Dollars in thousands)	2008	2007
Revenue (computer services)	$ 30	$ 34
Purchases		
Capital (wellsite trailers, other)	320	339
Operating (sponsorship and advertising (Note 14), shared employee services, other)	650	652
Year end accounts receivable	3	3
Year end accounts payable	161	15

11. Recent Changes in Accounting Policies

Effective January 1, 2008, the Company adopted two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements.

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535 "Capital Disclosures," which requires entities to disclose their objectives, policies and processes for management of capital, and in addition, whether the entity has complied with any externally imposed capital requirements.

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400 "Going Concern" which requires management to make an assessment of an entity's ability to continue as a going concern. The Company has evaluated the impact of this new standard on its consolidated financial statements and determined that no additional disclosures are required at this time.

The Canadian Accounting Standards Board recently confirmed January 1, 2011 as the date International Financial Reporting Standards (IFRS) will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises including AKITA Drilling Ltd.

Changing from Canadian GAAP to IFRS will be a significant undertaking that may materially affect the companies financial position and results of operations.

12. Capital Structure

The Company has determined capital to include long-term debt ($Nil at December 31, 2008 and December 31, 2007) and shareholders' equity. The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to augment existing resources in order to meet growth requirements.

The Company manages the capital structure and makes adjustments to it in the 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 or issue new shares, or sell assets.

13. Financial Instruments

Financial Instrument Risk Exposure and Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, foreign currency risk and potentially, liquidity risk. In addition, the Company is indirectly exposed to interest rate risk since the Company is typically non-borrowing and is generally directly exposed to fluctuations in interest rates through its investment in bank guaranteed highly liquid investments. The Company is also indirectly exposed to commodity risk relating to commodity prices due to the industry in which it works.

Credit Risk

The credit risk associated with accounts receivable is generally considered 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 recognize potential bad debts.

The table of accounts receivable below shows no significant credit risk exposure in the balances outstanding at December 31:

(Dollars in thousands)	**2008**	2007
Within 30 days	**$ 31,700**	$ 18,546
31 to 60 days	**5,316**	3,774
61 to 90 days	**3,241**	158
Over 90 days	**1,348**	183
Allowance for doubtful accounts	**(71)**	(156)
Accounts receivable	**$ 41,534**	$ 22,505

Foreign Currency Risk

The Company is exposed to changes in foreign exchange rates as revenues, capital expenditures or financial instruments may fluctuate due to changing rates. At December 31, 2008 and December 31, 2007, AKITA's exposure was limited substantially to its operations in the United States, which constituted less than 10% of its total business.

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2008 and December 31, 2007, this risk was limited due to having cash balances significantly in excess of total current liabilities.

14. Joint Ventures

The following table summarizes the Company's share of assets, liabilities, revenues and expenses related to its joint venture operations:

18. Discontinued Operations

In May, 2008, the Company sold one drilling rig (0.55 net to AKITA), which represented substantially all of the assets for the Akita Sahcho and Akita Kaska joint ventures. In June, 2008, the Company sold its well servicing business which included three well servicing rigs (1.5 net to AKITA), which represented substantially all of the assets for Western Oilfield Servicing. Proceeds from these sales totalled $8,150,000 ($4,375,000 net to AKITA) and resulted in an after tax gain of $1,941,000 to the Company.

Comparative 2007 results of the operations related to these businesses have been retroactively reclassified as discontinued operations.

(Dollars in thousands)	**2008**	2007
Revenue	**$ 795**	$ 983
Costs and Expenses		
Operating and maintenance	**554**	923
Depreciation	**104**	239
Selling and administrative	**247**	348
Loss from discontinued operations before income taxes	**(110)**	(527)
Provision for income taxes	**(30)**	(137)
Loss from discontinued operations	**$ (80)**	$ (390)

The following table provides a reconciliation of the cash flow impacts from discontinued operations:

(Dollars in thousands)	**2008**	2007
Loss from discontinued operations	**$ (80)**	$ (390)
Non-cash item included in earnings from discontinued operations		
Depreciation	**104**	239
Funds flow from discontinued operations	**$ 24**	$ (151)
Proceeds on sale of discontinued assets before income taxes	**$ 4,375**	$ —
Provision for income taxes	**(865)**	—
Proceeds on sale of discontinued assets	**$ 3,510**	$ —

10 Year Financial Review

(Dollars in thousands, except per share)

	Annual Ranking	2008	2007	2006
Summary of Operations				
Revenue	4	**$ 137, 246**	$ 141,962	$ 174,543
Earnings before income taxes	8	**$ 20,133**	$ 28,667	$ 48,129
Income taxes	9	**$ 7,147**	$ 7,525	$ 14,374
Net earnings	7	**$ 14,847**	$ 20,752	$ 33,755
As a percentage of average shareholder's equity	10	**7.7%**	11.5%	21.0%
Earnings per Class A and Class B shares	7	**$ 0.81**	$ 1.14	$ 1.83
Funds flow from continuing operations	4	**$ 34,149**	$ 37,143	$ 47,199
As a percentage of average shareholder's equity	10	**17.6%**	20.6%	29.4%
Financial Position at Year End				
Working capital	1	**$ 63,089**	$ 49,123	$ 56,681
Current ratio	2	**3.90:1**	3.92:1	2.77:1
Total assets	1	**$ 242,869**	$ 223,522	$ 222,237
Shareholder's equity	1	**$ 198,461**	$ 188,038	$ 172,873
per share	1	**$ 10.89**	$ 10.29	$ 9.43
Other				
Capital expenditures (Net)	8	**$ 14,622**	$ 33,505	$ 40,655
Depreciation	1	**$ 16,667**	$ 15,403	$ 14,211

2005	2004	2003	2002	2001	2000	1999
$ 162,110	$ 135,747	$ 124,078	$ 102,895	$ 110,844	$ 88,441	$ 61,316
$ 44,770	$ 32,121	$ 28,678	$ 23,473	$ 30,395	$ 19,792	$ 9,194
$ 15,506	$ 11,246	$ 9,856	$ 9,128	$ 12,506	$ 8,635	$ 3,983
$ 29,264	$ 20,875	$ 18,822	$ 14,345	$ 17,889	$ 11,157	$ 5,211
21.4%	18.3%	19.4%	16.7%	25.8%	18.0%	9.0%
$ 1.57	$ 1.15	$ 1.04	$ 0.79	$ 0.99	$ 0.62	$ 0.28
$ 42,421	$ 33,947	$ 30,426	$ 27,459	$ 26,959	$ 17,110	$ 10,894
31.0%	29.7%	31.3%	32.0%	38.9%	27.6%	18.5%
$ 59,499	$ 40,414	$ 24,319	$ 26,551	$ 19,823	$ 17,227	$ 30,368
2.74:1	2.83:1	1.82:1	2.52:1	1.77:1	2.07:1	3.67:1
$ 199,852	$ 162,957	$ 150,901	$ 133,901	$ 145,859	$ 85,529	$ 73,463
$ 148,366	$ 124,926	$ 103,590	$ 90,947	$ 80,472	$ 65,624	$ 58,170
$ 8.00	$ 6.70	$ 5.74	$ 4.97	$ 4.42	$ 3.62	$ 3.18
$ 18,386	$ 15,308	$ 16,122	($ 2,061)	$ 54,319	$ 26,548	$ 7,670
$ 12,691	$ 11,263	$ 9,432	$ 8,819	$ 7,763	$ 6,551	$ 5,627

(Dollars in thousands)	2008	2007
Current assets	$ 2,863	$ 5,842
Capital assets, net of accumulated depreciation	60,041	62,239
Current liabilities	1,563	4,257
Revenue	27,786	27,505
Expenses	21,516	22,671
Net earnings	6,270	4,834
Cash flow from operating activities	10,879	9,237
Cash flow from financing activities	—	—
Cash flow from investing activities	4,752	(8,823)

15. Significant Customers

During 2008, one customer (2007 – two customers) provided more than 10% of the Company's total revenue. In management's assessment, the future viability of the Company is not dependent upon this major customer.

16. Commitments

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2008, the Company had nine rigs with multi-year contracts. Of these contracts, two are anticipated to expire in 2009, five in 2010 and the remaining two contracts in 2012.

During 2004 and 2006, the Company entered into two multi-year contracts to provide sponsorship and advertising to a related company at a cost of $1,492,000 including $330,000 for 2008 (2007 - $321,000) (Note 10). These contracts have been extended until 2011.

The Company leases its office space at an annual cost of approximately $412,000 per year. This lease expires on December 31, 2009.

During 2007, the Company guaranteed loans made to joint venture partners totalling $4.5 Million for a period of four years. The Company has provided an assignment of monies on deposit totalling $5 Million with respect to these loans. This $5 Million balance has been classified as "Restricted Cash" on the consolidated balance sheet. The Company's security from its partners for these guarantees includes interests in specific rig assets.

17. Segmented Information

The Company operates in one business segment that provides oil and gas well drilling for its customers.

(Dollars in thousands)	Domestic		United States		Consolidated	
	2008	2007	2008	2007	2008	2007
Revenue	$ 125,724	$ 131,054	$ 11,522	$ 10,908	$ 137,246	$ 141,962
Capital assets at year-end	$ 134,282	$ 131,913	$ 18,762	$ 20,666	$ 153,044	$ 152,579

Corporate Information

Directors

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Corporate Director
Calgary, Alberta

Loraine M. Charlton
Corporate Director
Calgary, Alberta

Arthur C. Eastly
Corporate Director
Calgary, Alberta

Linda A. Heathcott
President, Spruce Meadows,
President, Team Spruce Meadows Inc.
Chairman of the Board
of the Company
Calgary, Alberta

John B. Hlavka
Chief Executive Officer
of the Company
Calgary, Alberta

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

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

Ronald D. Southern,
C.C., C.B.E., B.Sc., LL.D.
Chairman, ATCO Ltd. and
Canadian Utilities Limited,
Deputy Chairman of the Board of the
Company
Calgary, Alberta

C. Perry Spitznagel
Vice Chairman and Managing Partner
(Calgary), Bennett Jones LLP
Calgary, Alberta

Charles W. Wilson
Corporate Director
Evergreen, Colorado

Officers

John B. Hlavka
Chief Executive Officer

Fred O. Hensel
Vice President,
Marketing for the South

Lou C. Klaver, P.Eng.
Vice President, Engineering

Craig W. Kushner
Corporate Secretary and Human
Resources Administrator

John M. Pahl
Vice President,
Marketing for the North

Murray J. Roth
Vice President, Finance and Chief
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Karl A. Ruud
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Share Symbol / TSX

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

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