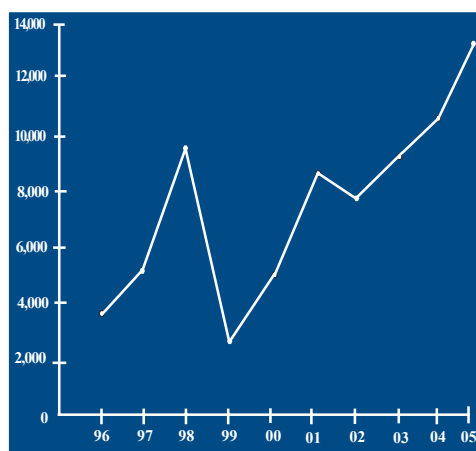


Interim report for
6 months ended
June 30, 2005



To the Shareowners

AKITA Drilling Ltd.'s net earnings for the six months ended June 30, 2005 were \$12,580,000 or \$0.68 per share on revenue of \$74,729,000. Comparative figures for 2004 were \$10,397,000 or \$0.58 per share of earnings on revenue of \$68,182,000. Cash flow from operations for the period was \$19,515,000 compared to \$17,396,000 in 2004.



Net Earnings January to June (\$ 000's)

Earnings for the three months ended June 30, 2005 were \$3,895,000 (\$0.21 per share) on revenue of \$24,840,000 compared with \$2,960,000 (\$0.16 per share) on revenue of \$23,882,000 in 2004. Cash flow from operations for the quarter ended June 30, 2005 was \$5,984,000 compared to \$5,649,000 in the corresponding quarter in 2004.

All per share amounts have been retroactively restated to reflect the impact of the Company's two-for-one share split implemented on June 8, 2005.

During the first six months of 2005, the Company drilled 586 wells and achieved 3,656 operating days. This represented 55% utilization for the period. A total of 660 wells were drilled over 3,547 operating days in the corresponding period in 2004, which represented 54% utilization. Unseasonably wet weather in June of the current year as compared to the same period in 2004

had a negative impact on utilization rates due to restricted access to several drilling sites. Improved day rates in the current year buffered the adverse financial impact of the lower activity.

Construction is continuing as planned on the rig that will be operated by the Doyon Akita Joint Venture under a four-year contract in Alaska. Rig operations are set to commence by the beginning of 2006.

Although weather had an adverse effect on rig utilization during the second quarter, demand for rigs in all depth categories should continue to remain strong as a result of currently high oil and gas commodity prices. Management is focused on seeking opportunities that meet the Company's current strengths in the North and in heavy oil. As well, the Company is interested in exploring ways to increase the opportunities for its well servicing operations.

On behalf of the Board of Directors,

(signed)

(signed)

Ronald D. Southern
Chairman of the Board

John B. Hlavka
President and C.E.O

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited financial statements for the six months ended June 30, 2005 and the audited financial statements and MD&A for the year ended December 31, 2004. References made to 2004 in this MD&A relate to the period from January to June unless otherwise stated. The information in this MD&A was approved by AKITA's Audit Committee on behalf of its Board of Directors on July 27, 2005 and incorporates all relevant considerations to that date.

Management has prepared this MD&A as well as the accompanying interim financial statements and notes to the financial statements.

REVENUE AND OPERATING & MAINTENANCE EXPENSES

\$Million	Three Months Ended June 30				Six Months Ended June 30			
	2005	2004	Change	%	2005	2004	Change	%
Revenue	24.8	23.9	0.9	4%	74.7	68.2	6.5	10%
Operating & Maintenance Expenses	13.9	14.1	(0.2)	(1%)	42.9	39.4	3.5	9%

Revenue increased to \$74,729,000 during the first six months of 2005 from \$68,182,000 as a result of stronger activity in the drilling sector. Day rates increased by approximately 6% over the six-month corresponding periods and equated to \$20,440 per operating day in 2005 (\$19,222 in the first six months of 2004). Operating and maintenance costs vary directly with revenue and amounted to \$42,950,000 or \$11,748 per operating day during the six months of 2005 compared with \$39,449,000 or \$11,122 per operating day for the first half of 2004. Consequently, on a six-month basis, in addition to increased overall profit margins (the difference between revenue and operating and maintenance expenses), "per operating day" margins were also higher.

During the second quarter of fiscal 2005, revenue increased to \$24,840,000 compared to \$23,882,000 during the corresponding period in 2004. On a "per operating day" basis, second quarter revenue increased from \$19,213 per day in 2004 to \$20,495 per day in the current year. Operating and maintenance costs for the second quarters amounted to \$13,945,000 or \$11,505 per operating day during 2005 compared with \$14,114,000 or \$11,355 per operating day for 2004. Strong market conditions and the amount of revenue derived from rigs placed on a "standby" basis continued to have a positive impact on the second quarter profit margins and "per operating day" results.

DEPRECIATION EXPENSE

\$Million	Three Months Ended June 30				Six Months Ended June 30			
	2005	2004	Change	%	2005	2004	Change	%
Depreciation	2.3	2.3	(0.0)	(4.0%)	6.4	6.0	0.4	8%

The depreciation increase to \$6,441,000 during the first six months of 2005 from \$5,984,000 in the corresponding period in 2004 was attributable to increased activity levels throughout AKITA's rig fleet combined with a higher

average cost base for AKITA's rigs. AKITA's rigs are depreciated on a unit of production basis. This method of depreciation resulted in second quarter depreciation being lower in 2005 than for the corresponding period in 2004 due to the actual mix of rigs operating. Drilling rig depreciation accounted for 71% of total depreciation expense in the first six months of 2005 (2004 - 77%).

SELLING & ADMINISTRATIVE EXPENSE

\$Million	Three Months Ended June 30				Six Months Ended June 30			
	2005	2004	Change	%	2005	2004	Change	%
Selling and Admin Expense	3.5	2.9	0.6	20%	7.1	6.8	0.3	5%

Selling and administrative expenses were 9.6% of total revenue in the first six months of 2005 compared to 10.0% of total revenue in 2004. The single largest component was salaries and benefits, which accounted for 57% of these expenses (55% in 2004). In addition, the 2004 results included a \$276,000 expense for a bad debt. No corresponding expense occurred in the first six months of 2005.

OTHER INCOME (EXPENSE)

\$Million	Three Months Ended June 30				Six Months Ended June 30			
	2005	2004	Change	%	2005	2004	Change	%
Other Income (Expense)	0.8	0.1	0.7	N/A	1.2	0.2	1.0	N/A

Interest expense for the first six months of 2005 decreased to \$106,000 from \$401,000 in the first six months of 2004 as a result of reduced long-term debt. Cash balances held which are surplus to current daily operating requirements have increased in 2005 and have resulted in AKITA generating \$546,000 in interest income for the first six months in 2005 compared with \$434,000 for the corresponding period in 2004. On a "net interest basis" (i.e. interest expense less interest income) AKITA was able to generate \$440,000 of interest income in the first six months of 2005 compared to interest income of \$33,000 in the corresponding period in 2004. Gains from the partial sale of rigs and other capital assets totalled \$714,000 during the first six months of 2005, compared with gains of \$176,000 for the corresponding period in 2004.

INCOME TAX EXPENSE

\$Million	Three Months Ended June 30				Six Months Ended June 30			
	2005	2004	Change	%	2005	2004	Change	%
Current Tax	1.8	1.3	0.5	38%	5.7	4.7	1.0	21%
Future Tax	0.3	0.3	0.0	N/A	1.0	1.0	0.0	N/A

Income tax expense increased to \$6,773,000 in the first six months of 2005 from \$5,724,000 in 2004 due to higher pre-tax earnings partially offset by lower tax rates.

NET EARNINGS AND CASH FLOW

\$Million	Three Months Ended June 30				Six Months Ended June 30			
	2005	2004	Change	%	2005	2004	Change	%
Net Earnings	3.9	3.0	0.9	32%	12.6	10.4	2.2	21%
Cash Flow from Operations	6.0	5.6	0.4	6%	19.5	17.4	2.1	12%

Net earnings increased to \$12,580,000 or \$0.68 per Class A Non-Voting and Class B Common share (\$0.67 diluted earnings per share) for the first six months of 2005 from \$10,397,000 or \$0.58 per share (\$0.56 diluted earnings per share) in 2004. Cash flow from operations increased to \$19,515,000 in the first two quarters of 2005 from \$17,396,000 in 2004. During the three months ended June 30, 2005 earnings increased to \$3,895,000 (\$0.21 basic and diluted earnings per share) compared to \$2,960,000 (\$0.16 basic and diluted earnings per share) for the corresponding period last year. Dilution for the three and six month periods in 2005 was determined based upon outstanding stock options. Quarterly cash flow from operations increased to \$5,984,000 for the three months ended June 30, 2005 compared to \$5,649,000 for the corresponding period in 2004. Current year results were positively affected by stronger market conditions, particularly in the first quarter. The second quarter of 2005 was characterized by unseasonably wet weather, particularly in June, which adversely impacted the full potential of the continuing strong market. Per share amounts have been retroactively restated to reflect the impact of the Company's two-for-one share split implemented on June 8, 2005.

Historically, the first quarter of the calendar year is the strongest in the drilling industry. Lower activity levels that result from warmer weather necessitating travel bans on public roads characterize the second quarter.

FLEET AND RIG UTILIZATION

AKITA's fleet is comprised of 37 drilling rigs, including seven that are operated under joint ventures (34.08 rigs net to AKITA). During 2005, the Company achieved 3,656 operating days including 1,212 operating days during the second quarter. This equated to a utilization rate of 54.6% on a year-to-date basis and 36.0% for the second quarter. During the corresponding six months in 2004, the Company achieved 3,547 operating days including 1,243 operating days during the second quarter. The comparative results represented 54.2% utilization for the six-month period ended June 30, 2004 including 37.9% for the second quarter. Wet weather in the second quarter of the current year impeded the movement of rigs for a portion of that period, thereby resulting in lower utilization than for the comparable period in 2004. Shallow capacity drilling rigs have been the most active market segment.

In addition to drilling rigs, the Company owns a 50% interest in three well servicing rigs. In the first six months of 2005, AKITA achieved 3,019 operating hours with its service rigs. As these service rigs were acquired on October 1, 2004, no results are available for the comparative six month period in 2004.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures in the first six months of 2005 were \$5,898,000. Capital expenditures for the corresponding period in 2004 were \$5,916,000.

Construction of the rig designed for Alaska North Slope exploration, announced on March 14, 2005, is continuing on schedule and on budget. The rig is expected to commence drilling operations by the beginning of 2006.

During the last 12 months, AKITA's balance sheet has been strengthened by the routine payment of long-term debt and as a result of the conversion of preferred shares into Class A Non-Voting shares. At June 30, 2005, AKITA's balance sheet included \$1,161,000 in long-term debt compared to \$6,696,000 at June 30, 2004 and \$3,973,000 at December 31, 2004. The existing balance is scheduled for repayment during 2005.

On May 26, 2005, AKITA's shareholders approved a two-for-one share split of its Class A Non-Voting and Class B Common shares. The shares commenced trading on a subdivided basis on June 8, 2005.

On June 6, 2005, the Company renewed its normal course issuer bid for the purchase of up to 3% of the outstanding Class A Non-Voting Shares. To June 30, 2005, 56,000 shares (after taking into consideration the share split noted above) were repurchased and cancelled pursuant to normal course issuer bids at a cost of \$822,000 of which \$33,000 was charged to share capital and \$789,000 to retained earnings. During the first six months of 2004 the Company repurchased and cancelled 2,600 shares at a cost of \$66,000. The current bid expires on June 5, 2006. Any interested person may obtain a copy of the notice without charge by contacting the Vice President of Finance.

Contractual obligations are substantially the same as described in AKITA's MD&A for the year ended December 31, 2004.

FUTURE OUTLOOK

Activity levels, which were 1.9 percentage points lower in the second quarter of 2005 compared to the corresponding period in 2004, are expected to recover over the balance of the year with demand for all rig sizes continuing at a steady pace. The currently strong market has motivated the Company to temporarily relocate one of its Northern joint venture rigs into Alberta, commencing during the third quarter. As well, preparatory work is being performed on the SDC Offshore Vessel in order to facilitate AKITA's first offshore labour contract planned for this winter.

Rigs in the North will not be working again until freeze up, as is typical for rigs working in regions with muskeg conditions. Although customers have not yet finalized their plans for the upcoming winter season, it currently appears that the number of wells scheduled for "North of 60" may be comparable to last winter.

NON-GAAP MEASURES

Cash flow from operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining cash flow from operations may differ from methods used by other companies and involves including operating cash flow before working capital changes. Management finds cash flow from operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods.

Operating income is not a recognized measure under GAAP. AKITA's method of determining operating income may differ from methods used by other companies and, accordingly operating income may not be comparable to measures used by other companies. Management believes that in addition to net earnings, operating income is a useful supplementary measure as it provides an indication of the results generated by the Company's principal business activities prior to consideration of how those activities are financed or taxed. Investors should be cautioned, however, that operating income should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of AKITA's performance.

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 investors and investment advisors should carefully consider the foregoing factors as well as other uncertainties and events prior to making a decision to invest in AKITA.

Balance Sheet

	June 30		December 31	
	2005	2004	2004	
<i>Unaudited</i> (\$000's)	ASSETS			
	Current assets			
	Cash	\$46,723	\$38,030	\$27,452
	Accounts receivable	20,919	17,753	34,926
	Other	693	592	104
		<u>68,335</u>	<u>56,375</u>	<u>62,482</u>
	Investments	55	55	55
	Capital assets	98,936	96,602	100,420
		<u>\$167,326</u>	<u>\$153,032</u>	<u>\$162,957</u>
	LIABILITIES			
	Current liabilities			
	Accounts payable and accrued liabilities	\$12,515	\$13,124	\$16,570
	Income tax payable	1,881	1,106	1,525
	Current portion of long-term debt	1,161	5,535	3,973
	Current portion of series preferred shares	-	4,956	-
		<u>15,557</u>	<u>24,721</u>	<u>22,068</u>
	Long-term debt	-	1,161	-
	Future income tax	14,147	12,193	13,113
	Pension liability	2,976	2,730	2,850
	CLASS A AND CLASS B SHAREHOLDERS' EQUITY			
	Preferred shares	-	228	-
	Class A and Class B shares	23,598	18,752	23,669
	Contributed surplus	434	115	386
	Retained earnings	110,614	93,132	100,871
		<u>134,646</u>	<u>112,227</u>	<u>124,926</u>
		<u>\$167,326</u>	<u>\$153,032</u>	<u>\$162,957</u>

Statement of Earnings and Retained Earnings

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2005	2004	2005	2004
<i>Unaudited</i> <i>(\$000's except</i> <i>per share</i> <i>amounts)</i>				
REVENUE	\$ 24,840	\$ 23,882	\$ 74,729	\$ 68,182
COSTS AND EXPENSES				
Operating and maintenance	13,945	14,114	42,950	39,449
Depreciation	2,259	2,349	6,441	5,984
Selling and administrative	3,462	2,910	7,139	6,837
	<u>19,666</u>	<u>19,373</u>	<u>56,530</u>	<u>52,270</u>
Operating income	<u>5,174</u>	<u>4,509</u>	<u>18,199</u>	<u>15,912</u>
OTHER INCOME (EXPENSE)				
Interest on long-term debt	(41)	(261)	(106)	(401)
Interest income	333	289	546	434
Gain on sale of joint venture interests in rigs and other capital assets	527	54	714	176
	<u>819</u>	<u>82</u>	<u>1,154</u>	<u>209</u>
EARNINGS BEFORE INCOME TAXES	5,993	4,591	19,353	16,121
INCOME TAXES				
Current	1,828	1,337	5,739	4,733
Future	270	294	1,034	991
	<u>2,098</u>	<u>1,631</u>	<u>6,773</u>	<u>5,724</u>
NET EARNINGS	3,895	2,960	12,580	10,397
Retained earnings, beginning of period	108,167	91,135	100,871	84,602
Dividends	(1,023)	(902)	(2,048)	(1,806)
Adjustment on repurchase and cancellation of share capital	(425)	(61)	(789)	(61)
RETAINED EARNINGS, END OF PERIOD	\$ 110,614	\$ 93,132	\$ 110,614	\$ 93,132
EARNINGS PER CLASS A AND CLASS B SHARE				
Basic	\$ 0.21	\$ 0.16	\$ 0.68	\$ 0.58
Diluted	\$ 0.21	\$ 0.16	\$ 0.67	\$ 0.56

Statement of Cash Flows

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2005	2004	2005	2004
<i>Unaudited</i> (\$000's)	OPERATING ACTIVITIES			
Net earnings	\$3,895	\$2,960	\$12,580	\$10,397
Non-cash items included in earnings				
Depreciation	2,259	2,349	6,441	5,984
Future income taxes	270	294	1,034	991
Expense for defined benefit pension plan	63	60	126	120
Amortization of preferred share discount	-	19	-	38
Stock options charged to expense	24	21	48	42
Gain on sale of joint venture interests in rigs and other capital assets	(527)	(54)	(714)	(176)
Cash flow from operations	5,984	5,649	19,515	17,396
Change in non-cash working capital	17,367	15,264	9,577	3,901
	23,351	20,913	29,092	21,297
	INVESTING ACTIVITIES			
Capital expenditures	(4,771)	(4,607)	(5,898)	(5,916)
Proceeds on sales of joint venture interests in rigs and other capital assets	1,306	276	1,655	507
Change in non-cash working capital	(125)	38	52	(1,327)
	(3,590)	(4,293)	(4,191)	(6,736)
	FINANCING ACTIVITIES			
Repayment of long-term debt	(1,417)	(1,332)	(2,812)	(2,643)
Dividends	(1,023)	(904)	(2,048)	(1,806)
Issue of share capital	-	-	-	70
Repurchase of share capital	(463)	(66)	(860)	(66)
Change in non-cash working capital	(2)	94	90	8
	(2,905)	(2,208)	(5,630)	(4,437)
INCREASE IN CASH	16,856	14,412	19,271	10,124
Cash position, beginning of period	29,867	23,618	27,452	27,906
CASH POSITION, END OF PERIOD	\$46,723	\$38,030	\$46,723	\$38,030
Interest paid during period	\$37	\$179	\$94	\$371
Income taxes paid during period	\$2,368	\$2,457	\$5,383	\$7,447

CORPORATE INFORMATION

DIRECTORS

William L. Britton, Q.C.
*Vice Chairman of the Board and
Lead Director, ATCO Ltd. and
Canadian Utilities Limited
Calgary, Alberta*

Linda A. Heathcott
*Executive Vice President, Spruce
Meadows,
President, Team Spruce Meadows
Inc.
Deputy Chairman of the Board of
the Corporation
Calgary, Alberta*

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

William R. Horton
*Corporate Director
Winfield, British Columbia*

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

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

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

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

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

Charles W. Wilson
*Corporate Director
Evergreen, Colorado*

OFFICERS

John B. Hlavka
*President and Chief
Executive Officer*

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

Craig W. Kushner
*Corporate Secretary and
Human Resources
Administrator*

Murray J. Roth
Vice President Finance

Karl A. Ruud
*Executive Vice President
and Chief Operating
Officer*

HEAD OFFICE

AKITA Drilling Ltd.
900, 311 – 6th Avenue
S.W.,
Calgary, Alberta T2P 3H2
(403)292-7979

BANKER

Alberta Treasury Branches
Calgary, Alberta

COUNSEL

Bennett Jones LLP
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers
LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

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

SHARE SYMBOL/TSX

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

WEBSITE

www.akita-drilling.com