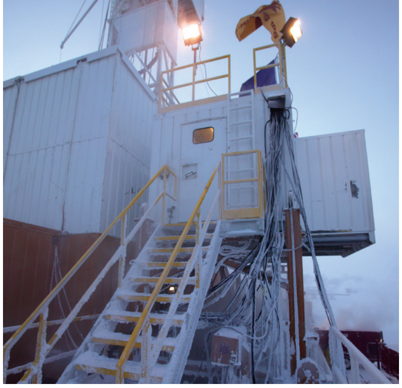
2007 Quarterly Report



AKITA

Interim report for 3 months ended March 31, 2007

making a **difference**

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To the Shareowners

AKITA Drilling Ltd.'s net earnings for the three months ended March 31, 2007 were $9,087,000 or $0.50 per share on revenue of $52,873,000. Comparative figures for 2006 were earnings of $11,002,000 or $0.59 per share on revenue of $61,195,000. Funds flow for the period was $15,630,000 compared to $16,519,000 in 2006.

Weaker market conditions that began in the second half of 2006 continued into the first quarter of 2007, resulting in lower contribution margins for all rig categories. Operating statistics for the first three months of 2007 and 2006 are as follows:

		Number of Rigs		Number of Wells Drilled or Serviced	Operating Days (Drilling)	Operating Hours (Servicing)
		Gross	Net			
Canadian Drilling	**2007**	**37**	**35.075**	**313**	**2,085**	**N/A**
	2006	37	34.075	399	2,601	N/A
Alaskan Drilling	**2007**	**3**	**1.5**	**1**	**59**	**N/A**
	2006	1	0.5	2	70	N/A
Canadian Well Servicing	**2007**	**3**	**1.5**	**24**	**N/A**	**1,128**
	2006	3	1.5	26	N/A	2,437

On April 13, 2007, for the seventh time in the past eight years, the Company's management and employees were recognized for their achievement in safety by being awarded a CAODC Safety Leadership Award at the 27th Annual CAODC Safety Banquet.

As a result of lower commodity prices for natural gas and, to a lesser extent for crude oil, management anticipates that weaker market conditions will continue in the drilling business for the next six months and in the well service business for the foreseeable future. AKITA continually reviews its strategies in order to optimize its market position and has the financial strength to retain its focus in terms of safety and quality service for its customers. Additionally, the Company remains well positioned to capitalize on longer-term improvements in demand as a result of its diversified fleet.

On behalf of the Board of Directors,

Linda A. Heathcott
Chairman of the Board

John B. Hlavka
Chief Executive Officer

Management's Discussion & Analysis

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2007 and the audited financial statements and MD&A for the year ended December 31, 2006. References made to 2006 in this MD&A relate to the period from January 1 to March 31 unless otherwise stated. The information in this MD&A was approved by AKITA's Audit Committee on behalf of its Board of Directors on April 26, 2007 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 interim financial statements.

Revenue and Operating Maintenance Expenses

$Million (Three Months Ended March 31)	2007	2006	Change	% Change
Revenue	52.9	61.2	(8.3)	(14%)
Operating and Maintenance Expenses	30.2	34.5	(4.3)	(12%)

Overall revenue decreased to $52,873,000 during the first quarter of 2007 from $61,195,000 during the first quarter of 2006 as a result of weaker activity in the drilling sector. Although overall revenue decreased on a year over year basis, revenue per operating day increased to $24,661 during the first quarter of 2007 from $22,911 per operating day in the first quarter of 2006. This increase was due to an increase in the average number of services being contracted by AKITA's rigs as well as an increase in the number of rigs earning revenue on a standby basis. Operating and maintenance costs are also tied to activity levels and amounted to $30,156,000 or $14,065 per operating day during the first quarter of 2007 compared with $34,527,000 or $12,927 per operating day in the same period of the prior year.

In 2006, the Company entered into a multi-year daywork contract for the provision of drilling services which includes certain pre-payment requirements. In this regard, the Company has recorded $1,732,000 at March 31, 2007 as deferred revenue in accordance with its revenue recognition policy.

Depreciation Expense

$Million (Three Months Ended March 31)	2007	2006	Change	% Change
Depreciation Expense	5.0	4.8	0.2	4%

The depreciation expense increase to $4,966,000 during the first quarter of 2007 from $4,762,000 in the corresponding period in 2006 was attributable to a higher average cost base due to the addition of new rigs for AKITA's rig fleet which was partially offset by a decrease in overall rig activity. AKITA's rigs are depreciated on a unit of production basis. Drilling rig depreciation accounted for 80% of total depreciation expense in the first quarter of 2007 (2006 - 81%).

Selling and Administrative Expense

$Million (Three Months Ended March 31)	**2007**	2006	Change	% Change
Selling and Administrative Expense	**4.7**	5.6	(0.9)	(16%)

Selling and administrative expenses were 8.8% of total revenue in the first quarter of 2007 compared to 9.2% of total revenue in the first quarter of 2006. The single largest component was salaries and benefits, which accounted for 52% of these expenses (47% in 2006). An additional factor to consider in comparing these results was the inclusion of an $850,000 expense in 2006 for an account that seemed potentially uncollectible at that time, but was subsequently collected prior to the end of 2006. No corresponding expense occurred in the first quarter of 2007.

Other Income (Expenses)

$Million (Three Months Ended March 31)	**2007**	2006	Change	% Change
Other Income	**0.4**	0.5	0.1	(20%)

The Company invests any cash balances in excess of its ongoing operating requirements. Interest income increased to $409,000 from $384,000 in the corresponding period as a result of higher cash balances in 2007. The gain on sale of joint venture interests in rigs and other assets totalled $103,000 in 2007 compared to $108,000 in the first quarter of 2006. In the first quarter of 2007, the Company recorded an unrealized loss from foreign currency translation of $96,000 from its Alaskan operation compared to an unrealized gain from foreign currency translation of $30,000 in the first quarter of 2006.

Income Tax Expense

$Million (Three Months Ended March 31)	**2007**	2006	Change	% Change
Current Tax Expense	**3.0**	5.0	(2.0)	(40%)
Future Tax Expense	**1.4**	0.8	0.6	75%

Total income tax expense decreased to $4,414,000 in the first quarter of 2007 from $5,820,000 in the corresponding period in 2006 due to lower pre-tax earnings as well as a reduced income tax rate. A higher proportion of tax expense has been recorded as future tax expense as a result of recent additions to AKITA's rig fleet.

Net Earnings and Funds Flow

$Million (Three Months Ended March 31)	**2007**	2006	Change	% Change
Net Earnings	**9.1**	11.0	(1.9)	(17%)
Funds Flow From Operations	**15.6**	16.5	(0.9)	(5%)

Net earnings decreased to $9,087,000 or $0.50 per Class A Non-Voting and Class B Common Share (basic and diluted) for the first quarter of 2007 from $11,002,000 or $0.59 per share (basic and diluted) in the first quarter of 2006. Funds flow from operations decreased to $15,630,000 in the first quarter of 2007 from $16,519,000 in the corresponding quarter in 2006. Lower earnings and funds flow from operations that occurred in 2007 were directly attributable to lower activity levels as a result of weaker market conditions versus the first quarter of 2006.

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

Fleet and Rig Utilization

AKITA had 40 drilling rigs, including eight that operated under joint ventures, (36.575 rigs net to AKITA) in the first quarter of 2007 compared to 38 rigs (34.575 net) in the corresponding period of 2006. In the first quarter of 2007, AKITA achieved 2,144 operating days, representing a utilization rate of 59.6% for the period. During the comparative period in 2006, the Company achieved 2,671 operating days, representing 78.1% utilization.

In addition to drilling rigs, the Company also owns a 50% interest in three well servicing rigs. In the first quarter of 2007, AKITA achieved 1,128 operating hours with its service rigs compared to 2,437 operating hours in the comparative period in 2006. The reduction in operating hours in 2007 was indicative of a reduction in market opportunities versus the corresponding period in 2006.

Liquidity and Capital Resources

Capital expenditures totalled $9,877,000 in the first quarter of 2007. The Company had two heavy oil pad drilling rigs under construction throughout the quarter. Capital expenditures for the corresponding period in 2006 were $4,959,000.

At March 31, 2007, AKITA's balance sheet included working capital (current assets minus current liabilities) of $60,650,000 compared to working capital of $69,954,000 at March 31, 2006 and working capital of $56,681,000 at December 31, 2006. The seasonal nature of AKITA's business typically results in higher non-cash working capital requirements at the end of the first quarter than at year-end due to the high seasonal activity levels encountered in the first quarter.

The Company did not have any long-term debt during 2006 or 2007.

During the first quarter of 2007, the Company repurchased 38,100 Class A Non-Voting shares at an average price of $16.91 per share pursuant to its Normal Course Issuer Bid.

Contractual obligations are substantially the same as described in AKITA's MD&A for the year ended December 31, 2006.

Summary of Quarterly Results

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

$Million (Three Months Ended March 31)	Mar.31	June 30	Sept. 30	Dec. 31
2007				
Revenue	**52,873**			
Net earnings	**9,087**			
Basic earnings per share	**0.50**			
Diluted earnings per share	**0.50**			
Funds flow from operations	**15,630**			
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
Funds flow from operations	16,519	8,758	10,389	11,533
2005				
Revenue	49,889	24,840	40,740	46,641
Net earnings	8,685	3,985	7,108	9,576
Basic earnings per share	0.47	0.21	0.38	0.51
Diluted earnings per share	0.46	0.21	0.38	0.51
Funds flow from operations	13,531	5,984	10,319	12,587

Future Outlook

Management anticipates that the year over year reduction in activity that occurred during the first quarter of 2007 will continue for at least the balance of the second and third quarters of the current year. In addition to lower utilization, management anticipates that revenue per operating day will reflect the overall reduction in demand. Lower commodity prices for natural gas and, to a lesser extent for crude oil, have resulted in weaker demand for all depth ranges of drilling and related services.

Should market conditions improve, AKITA's balanced fleet is well suited to respond to demand in any depth category.

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 the industry and risk management.

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 realized. Readers of this MD&A are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by factors such as the level of exploration and development activity carried on by AKITA's customers; world crude oil prices and North American natural gas prices; weather; access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that investors and others should carefully consider the foregoing factors as well as other uncertainties and events prior to making a decision to invest in AKITA.

Consolidated Balance Sheets

(Dollars in thousands)		March 31 2007 (Unaudited)	March 31 2006 (Unaudited)	December 31 2006 (Audited)
Assets				
Current Assets				
Cash		**$ 30,337**	$ 38,486	$ 49,927
Accounts Receivable		**58,405**	56,602	38,529
Other		**1,492**	517	206
		90,234	95,605	88,662
Investments		**—**	55	—
Capital Assets		**138,450**	106,279	133,575
		$ 228,684	$ 201,939	$ 222,237
Liabilities				
Current Liabilities				
Bank indebtedness		**$ 2,850**	$ —	$ —
Accounts payable and accrued liabilities		**22,237**	21,111	24,772
Deferred revenue		**1,732**	—	—
Dividends payable		**1,280**	1,112	1,285
Income taxes payable		**1,485**	3,428	5,924
		29,584	25,651	31,981
Future income taxes		**15,396**	14,985	14,016
Pension liability		**3,432**	3,171	3,367
Class A and Class B Shareholder's Equity				
Class A and Class B shares	Note 2	**23,391**	23,677	23,440
Contributed surplus		**887**	474	652
Retained earnings		**155,994**	133,981	148,781
		180,272	158,132	172,873
		$ 228,684	$ 201,939	$ 222,237

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

Unaudited ($000's except per share amounts)		Three Months ended March 31 2007	2006
Revenue		**$ 52,873**	$ 61,195
Costs and Expenses			
Operating and Maintenance		**30,156**	34,527
Depreciation		**4,966**	4,762
Selling and administrative		**4,666**	5,606
		39,788	44,895
Operating Income		**13,085**	16,300
Other income (expense)			
Interest income		**409**	384
Gain on sale of joint venture interests in rigs and other assets		**103**	108
Gain (loss) on foreign currency translation		**(96)**	30
		416	522
Earnings before income taxes		**13,501**	16,822
Income Taxes			
Current		**3,034**	5,035
Future		**1,380**	785
		4,414	5,820
Net Earnings and Comprehensive Income	Note 4	**9,087**	11,002
Retained earnings, beginning of period		**148,781**	124,343
Dividends declared		**(1,280)**	(1,112)
Adjustment on repurchase and cancellation of share capital		**(594)**	(252)
Retained Earnings, end of period		**$ 155,994**	$ 133,981
Earnings per Class A and Class B share	Note 3		
Basic		**$ 0.50**	$ 0.59
Diluted		**$ 0.50**	$ 0.59

Consolidated Statements of Cash Flows

Unaudited ($000's except per share amounts)	Three Months ended March 31 2007	2006
Operating activities		
Net Earnings	**$ 9,087**	$ 11,002
Non-cash items included in earnings		
Depreciation	**4,966**	4,762
Future income taxes	**1,380**	785
Expense for defined benefit pension plan	**65**	69
Stock options charged to expense	**235**	9
Gain on sale of joint venture interests in rigs and other assets	**(103)**	(108)
Funds flow from operations	**15,630**	16,519
Change in non-cash working capital	**(26,750)**	(12,641)
	(11,120)	3,878
Investing activities		
Capital Expenditures	**(9,877)**	(4,959)
Proceeds on sales of joint venture interests in rigs and other assets	**139**	140
Change in non-cash working capital	**315**	(244)
	(9,423)	(5,063)
Financing activities		
Increase in bank indebtedness	**2,850**	—
Dividends paid	**(1,280)**	(1,112)
Proceeds received on exercise of stock options	**—**	123
Repurchase of share capital	**(643)**	(256)
Change in non-cash working capital	**26**	(1,769)
	953	(3,014)
Decrease in cash	**(19,590)**	(4,199)
Cash position, beginning of period	**49,927**	42,685
Cash position, end of period	**$ 30,337**	$ 38,486
Interest paid during the period	**$ 33**	$ 23
Income taxes paid during the period	**$ 7,473**	$ 7,480

Notes to Consolidated Financial Statements

Periods ended March 31, 2007 and March 31, 2006
(Unaudited)

1. Statement Presentation

The unaudited interim consolidated financial statements were prepared by the Company in accordance with Canadian generally accepted accounting principles and include the accounts of AKITA Drilling Ltd., its subsidiaries and a proportionate share of its joint ventures (consisting of drilling and well servicing rigs). The accounting policies and procedures used in assembling these interim statements are the same as those used in preparing the audited consolidated financial statements for the year ended December 31, 2006 except as noted in Note 4 below. The unaudited interim consolidated financial statements should be read along with the audited annual financial statements and notes to the statements in the Company's 2006 Annual Report. The operating and financial results for the interim period covered do not necessarily reflect overall results which may be achieved in the fiscal year due to the seasonality of the industry.

2. Statement Presentation

(Number of shares)	**March 3, 2007**	December 31, 2006
Class A Non-Voting	**16,630,158**	16,668,258
Class B Common	**1,654,284**	1,654,284
	18,284,442	18,322,542

As at March 31, 2007, a cumulative total of 411,000 stock options had been granted to directors and officers of the Company at exercise prices varying from $3.695 to $22.480, with expiry dates up to 2016. Of these stock options, 170,800 are exercisable for an average exercise price of $8.92.

3. Statement Presentation

	Three Months Ended March 31	
	2007	2006
Net earnings (Dollars in Thousands)	**$ 9,087**	$ 11,002
Weighted average outstanding shares - basic	**18,294,079**	18,540,253
Incremental shares for diluted earnings per share calculation	**12,304**	133,307
Basic earnings per share ($)	**$ 0.50**	$ 0.59
Diluted earnings per share ($)	**$ 0.50**	$ 0.59

4. Comprehensive Income and Financial Instrucments

The CICA has published three new accounting sections to the CICA Handbook: Section 1530, Section 3855 and Section 3861. Section 1530 "Comprehensive Income" addresses fair value accounting and reporting and disclosure standards for comprehensive income. Section 3855 "Financial Instruments – Recognition and Measurement" addresses when financial instruments should be measured and how measurement should occur. Section 3861 "Financial Instruments – Disclosure and Presentation" provides standards for how financial instruments should be classified on the financial statements as well as related disclosure requirements. All of these new standards were adopted by the Company on a prospective basis in accordance with the recommendations of the CICA for the period commencing January 1, 2007. The Company has evaluated the impact of these new standards and the adoption of these recommendations has not had a significant impact on the Company's financial statements. The Company had no "Other Comprehensive Income" during the period.

5. Semented Information

The Company operates in one business segment that includes providing oil and gas well drilling and well servicing for its customers. Results for the past two years, as stated in Canadian dollars, are as follows:

$ thousands (Three Months Ended March 31)	Domestic		Alaska		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
Revenue	**$47,208**	$ 59,115	**$ 5,665**	$ 2,080	**$52,873**	$ 61,195
Net Earnings	**$ 7,577**	$ 10,700	**$ 1,510**	$ 302	**$ 9,087**	$ 11,002

Corporate Information

Directors

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

John B. Hlavka
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.
Co-Chairman, Spruce Meadows
Calgary, Alberta

Nancy C. Southern
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 Corporation
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C. Perry Spitznagel
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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,
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Murray J. Roth
Vice President,
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Karl A. Ruud
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Registrar and Transfer Agent

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Share Symbol / TSX

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

Website

www.akita-drilling.com