2007 Quarterly Report

AKITA

Interim report for 6 months
ended June 30, 2007

making a **difference**

Q2

# To the Shareowners

AKITA Drilling Ltd.'s net earnings for the six months ended June 30, 2007 were $12,178,000 or $0.67 per share on revenue of $80,218,000. Comparative figures for 2006 were $18,550,000 or $1.00 per share of net earnings on revenue of $94,124,000. Funds flow from operations for the period was $21,683,000 compared to $25,277,000 in 2006.

Earnings for the three months ended June 30, 2007 were $3,091,000 ($0.17 per share) on revenue of $27,345,000 compared to $7,548,000 ($0.41 per share) on revenue of $32,929,000 in 2006. Funds flow from operations for the quarter ended June 30, 2007 was $6,053,000 compared to $8,758,000 in the corresponding quarter in 2006.

| | | Number of Rigs | | Number of Wells Drilled or Serviced | Operating Days (Drilling) | Operating Hours (Servicing) |
|---|---|---|---|---|---|---|
| | | Gross | Net | | | |
| Canadian Drilling | **2007** | **39** | **35.575** | **487** | **3,122** | **N/A** |
| | 2006 | 37 | 34.075 | 632 | 4,253 | N/A |
| Alaskan Drilling | **2007** | **3** | **1.5** | **3** | **131** | **N/A** |
| | 2006 | 1 | 0.5 | 3 | 88 | N/A |
| Canadian Well Servicing | **2007** | **3** | **1.5** | **25** | **N/A** | **1,221** |
| | 2006 | 3 | 1.5 | 30 | N/A | 2,898 |

AKITA added two heavy oil pad rigs to its fleet during the second quarter. The first rig commenced its multi-year term contract midway through the quarter, while the second rig, which does not have a term contract associated with it, is expected to commence drilling operations later in the third quarter. The Company does not have any immediate plans to increase its fleet size at this time. AKITA remains poised, with the financial and other resources it has at its disposal, to respond to market opportunities, as they arise.

Management anticipates that demand for rigs in all depth ranges will continue to lag behind last year's activity levels. To date, activity levels for shallow, deep and northern rig categories have been the most adversely affected. Heavy oil pad rigs and, to a lesser extent, medium depth capacity rigs, have been more modestly impacted by the lower demand. Management anticipates that overall market conditions will not improve significantly until an improved forecast for natural gas is broadly accepted by the Company's customers.

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 six months ended June 30, 2007 and the audited financial statements and MD&A for the year ended December 31, 2006. References made to 2007 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 30, 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 financial statements.

## Revenue and Operating and Maintenance Expenses

| $Million | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | Change | % | **2007** | 2006 | Change | % |
| Revenue | **27.3** | 32.9 | (5.6) | (17%) | **80.2** | 94.1 | (13.9) | (15%) |
| Operating and Maintenance Expenses | **16.0** | 18.4 | (2.4) | (13%) | **46.2** | 52.9 | (6.7) | (13%) |

Revenue decreased to $80,218,000 during the first six months of 2007 compared to $94,124,000 during the first six months of 2006, as a result of weaker activity in the drilling sector. Although overall revenue declined during the first six months of 2007 compared to the corresponding period in 2006, day rates increased by approximately 14% over the six-month corresponding period and equated to $24,660 per operating day in 2007 ($21,683 in the first six months of 2006). Operating and maintenance expenses are also tied to activity levels and amounted to $46,162,000 or $14,191 per operating day during the first six months of 2007 compared to $52,885,000 or $12,183 per operating day for the first half of 2006. Consequently, on a six-month basis, the overall profit margin (the difference between revenue and operating and maintenance expenses) declined to $34,056,000 in 2007 compared to $41,239,000 in 2006.

During the second quarter of fiscal 2007, overall revenue decreased to $27,345,000 compared to $32,929,000 during the corresponding period in 2006. On a "per operating day" basis, second quarter revenue increased to $23,412 in 2007 compared to $19,993 per operating day in 2006, mainly as a result of additional standby revenue in 2007 compared to the corresponding period in 2006. Operating and maintenance expenses for the second quarter amounted to $16,006,000 or $13,704 per operating day during 2007 compared to $18,358,000 or $11,113 per operating day for 2006.

During the second quarter of 2007, AKITA received a special dividend payment from the Alberta Workers Compensation Board totalling $577,000 (2006 - $590,000). In addition, AKITA received rebates totalling $438,000 (2006 – $299,000) directly related to its superior safety record. These amounts have been recorded as reductions to operating and maintenance expenses otherwise incurred.

## Depreciation Expense

| $Million | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | Change | % | **2007** | 2006 | Change | % |
| Depreciation Expense | **2.6** | 3.1 | (0.5) | (16%) | **7.6** | 7.9 | (0.3) | (4%) |

Depreciation expense decreased to $7,588,000 during the first six months of 2007 compared to $7,855,000 in the corresponding period in 2006, attributable to lower activity levels throughout AKITA's rig fleet more than offsetting the higher average cost base for AKITA's rigs. AKITA's rigs are depreciated on a unit of production basis. Drilling rig depreciation accounted for 74% of total depreciation expense in the first six months of 2007 (2006 - 83%).

## Selling and Administrative Expenses

| $Million | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | Change | % | **2007** | 2006 | Change | % |
| Selling and Administrative Expenses | **4.0** | 3.7 | 0.3 | 8% | **8.7** | 9.3 | (0.6) | (6%) |

Selling and administrative expenses were 10.8% of total revenue in the first six months of 2007 compared to 9.8% of total revenue in 2006. The single largest component was salaries and benefits, which accounted for 54% of these expenses (57% in 2006). An additional factor to consider in comparing the quarterly results was the inclusion of an $850,000 expense in the first quarter of 2006 that was categorized as potentially uncollectible at that time, but was subsequently collected during the second quarter of last year. No corresponding expense or recovery occurred in the first six months of 2007.

## Other Income (Expenses)

| $Million | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | Change | % | **2007** | 2006 | Change | % |
| Interest Income | **0.4** | 0.5 | (0.1) | (20%) | **0.8** | 0.9 | (0.1) | (11%) |
| Gain on Sale of Joint Venture Interests in Rigs and Other Assets | **0.0** | 0.3 | (0.3) | N/A | **0.1** | 0.4 | (0.3) | (75%) |
| Loss on Foreign Currency Translation | **(0.5)** | (0.1) | (0.4) | N/A | **(0.6)** | (0.1) | (0.5) | N/A |

The Company invests any cash balances in excess of its ongoing operating requirements. Interest income decreased to $784,000 in the first six months of 2007, compared to $909,000 in the first six months of 2006 due to lower cash balances, primarily as a result of investing in AKITA's rig construction program. The gain on sale of joint venture interests in rigs and other assets totalled $134,000 in 2007 compared to $443,000 for the first six months in 2006. As a result of the continuing appreciation of the Canadian dollar vis-à-vis the United States dollar, in the first six months of 2007, the Company recorded an unrealized loss from foreign currency translation of $617,000 from its Alaskan operation compared to an unrealized loss from foreign currency translation of $101,000 for the corresponding period in 2006.

## Income Tax Expense

| $Million | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | Change | % | **2007** | 2006 | Change | % |
| Current Tax | **1.3** | 2.6 | (1.3) | (50%) | **4.3** | 7.7 | (3.4) | (44%) |
| Future Tax | **0.2** | (1.6) | 1.8 | N/A | **1.6** | (0.8) | 2.4 | N/A |

Current income tax expense decreased to $4,304,000 in the first six months of 2007 compared to $7,668,000 in 2006 due to lower pre-tax earnings. During the second quarter of 2006, the Company recorded a $1,800,000 reduction in future income taxes as a result of federal, provincial and territorial tax rate changes. No corresponding material reductions to future income taxes occurred during the current year. Additionally, the Company is typically recording a higher proportion of tax expense as future tax expense as a result of recent additions to AKITA's rig fleet.

## Net Earnings and Funds Flow

| $Million | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | Change | % | **2007** | 2006 | Change | % |
| Net Earnings | **3.1** | 7.5 | (4.4) | (59%) | **12.2** | 18.6 | (6.4) | (34%) |
| Funds Flow From Operations | **6.1** | 8.8 | (2.7) | (31%) | **21.7** | 25.3 | (3.6) | (14%) |

Net earnings decreased to $12,178,000 or $0.67 per Class A Non-Voting and Class B Common share ($0.66 diluted earnings per share) for the first six months of 2007 compared to $18,550,000 or $1.00 per share ($0.99 diluted earnings per share) in the corresponding period in 2006.

Funds flow from operations decreased to $21,683,000 in the first two quarters of 2007 compared to $25,277,000 in the corresponding period in 2006. During the three months ended June 30, 2007 earnings decreased to $3,091,000 or $0.17 per Class A Non-Voting and Class B Common share ($0.16 diluted earnings per share) compared to $7,548,000 ($0.41 basic and $0.40 diluted earnings per share) for the corresponding period in 2006. Quarterly funds flow from operations decreased to $6,053,000 for the three months ended June 30, 2007 compared to $8,758,000 for the corresponding period in 2006.

Current year results were primarily negatively affected by weaker market conditions. To some extent, wet weather, which was more prevalent in the second quarter of 2007 than during the corresponding period in 2006, was a factor in weaker financial performance for AKITA as a result of having more down time waiting for roads and land leases to dry sufficiently to enable the movement of heavy equipment.

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.

## Non-GAAP Measure

Funds flow from operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining funds flow from operations may differ from methods used by other companies. AKITA determines funds flow by calculating cash flow from operations and deducting non-cash working capital changes. Management and certain investors may find funds flow from operations to be a useful measurement to evaluate AKITA'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 at year-ends and within periods.

## Fleet and Rig Utilization

At June 30, 2007, AKITA had 42 drilling rigs, including nine that operated under joint ventures, (37.075 rigs net to AKITA) compared to 38 rigs (34.575 net) in the corresponding period of 2006. In the first six months of 2007, AKITA achieved 3,253 operating days, which corresponded to a utilization rate of 44.4% for the period. During the comparative period in 2006, the Company achieved 4,341 operating days, representing 63.5% utilization. In the second quarter of 2007, AKITA achieved 1,168 operating days, which corresponded to a utilization rate of 31.3% for the period. In the second quarter of 2006, the Company achieved 1,652 operating days, representing 48.1% utilization.

In addition to drilling rigs, AKITA owns a 50% interest in three well servicing rigs. In the first six months of 2007, AKITA's well servicing rigs achieved 1,221 operating hours, including 93 hours in the second quarter compared to 2,898 operating hours for the first six months of 2006, including 461 for the second quarter.

## Liquidity and Capital Resources

Capital expenditures in the first six months of 2007 were $25,558,000. Capital expenditures for the corresponding period in 2006 were $18,259,000. During the second quarter of the current year, the Company completed the construction of two heavy oil pad drilling rigs. These rigs, along with two additional rigs that were deployed in the second half of 2006, were also under construction during the first six months of 2006. No additional new rig construction has been approved at this time.

On June 15, 2007, AKITA renewed its normal course issuer bid for the purchase of up to 300,000 of its outstanding Class A Non-Voting shares. To June 30, 2007, 50,000 shares were repurchased and cancelled pursuant to the normal course issuer bid at a cost of $840,000, of which $64,000 was charged to share capital and $776,000 to retained earnings. During the first six months of 2006 AKITA repurchased and cancelled 39,200 shares at a cost of $879,000. The current bid expires on June 14, 2008. Any interested person may obtain a copy of the notice of intention to make a normal course issuer bid 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, 2006 except as they relate to the normal progress for AKITA's construction for its new rigs.

## Summary of Quarterly Results

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

| $Thousands, except per share (Three Months Ended) | **Mar.31** | **June 30** | Sept. 30 | Dec. 31 |
|---|---|---|---|---|
| **2007** | | | | |
| Revenue | **52,873** | **27,345** | | |
| Net earnings | **9,087** | **3,091** | | |
| Basic earnings per share | **0.50** | **0.17** | | |
| Diluted earnings per share | **0.50** | **0.16** | | |
| Funds flow from operations | **15,630** | **6,053** | | |
| **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 | 3,895 | 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

The continuation of weak natural gas prices, which have been adversely affecting rig demand for approximately one year, constitute the most significant risk factor affecting future activity levels for AKITA's fleet. Shallow and deep rig categories are most closely correlated to natural gas drilling activity. In addition, most northern drilling activity has been directed at drilling for natural gas.

Crude oil prices, in contrast to natural gas prices, continue to be very strong. The Company now has five specialized rigs with self-moving systems to drill heavy oil wells. Although work in this niche has not been continuous, prospects remain positive for increases in demand, both in the near term, and over a longer time span.

AKITA currently has two rigs located in Northern Canada and three rigs located in Alaska which will not be working prior to freeze up, as is typical for rigs working in regions with muskeg and permafrost conditions. Although customers have not yet finalized their plans for the approaching winter season, it currently appears that only a limited number of wells will be drilled in these regions during the upcoming winter.

## 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.

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 crude oil prices and North American natural gas prices, weather, access to capital markets, geopolitical events 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.

# Consolidated Balance Sheets

| Unaudited (000's) | | June 30 2007 | June 30 2006 | December 31 2006 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash | | **$ 35,629** | $ 54,537 | $ 49,927 |
| Accounts receivable | | **28,527** | 33,746 | 38,529 |
| Other | | **1,101** | 1,761 | 206 |
| | | **65,257** | 90,044 | 88,662 |
| Investments | | **—** | 55 | — |
| Capital assets | | **151,508** | 116,389 | 133,575 |
| | | **$ 216,765** | $ 206,488 | $ 222,237 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | | **11,668** | 21,071 | 24,772 |
| Deferred revenue | | **1,566** | — | — |
| Dividends payable | | **1,279** | 1,113 | 1,285 |
| Income taxes payable | | **1,172** | 3,670 | 5,924 |
| | | **15,685** | 25,854 | 31,981 |
| Future income taxes | | **15,626** | 13,358 | 14,016 |
| Pension liability | | **3,498** | 3,237 | 3,367 |
| **Class A and Class B Shareholder's Equity** | | | | |
| Class A and Class B shares | Note 2 | **23,376** | 23,722 | 23,440 |
| Contributed surplus | | **962** | 505 | 652 |
| Retained earnings | | **157,618** | 139,812 | 148,781 |
| | | **181,956** | 164,039 | 172,873 |
| | | **$ 216,765** | $ 206,488 | $ 222,237 |

# Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

| Unaudited ($000's except per share amounts) | | Three Months ended June 30 2007 | Three Months ended June 30 2006 | Six Months ended June 30 2007 | Six Months ended June 30 2006 |
|---|---|---|---|---|---|
| **Revenue** | | **$ 27,345** | $ 32,929 | **$ 80,218** | $ 94,124 |
| **Costs and Expenses** | | | | | |
| Operating and maintenance | | **16,006** | 18,358 | **46,162** | 52,885 |
| Depreciation | | **2,622** | 3,093 | **7,588** | 7,855 |
| Selling and administrative | | **4,011** | 3,653 | **8,677** | 9,259 |
| | | **22,639** | 25,104 | **62,427** | 69,999 |
| Operating Income | | **4,706** | 7,825 | **17,791** | 24,125 |
| **Other income (expenses)** | | | | | |
| Interest income | | **375** | 525 | **784** | 909 |
| Gain on sale of joint venture interests in rigs and other assets | | **31** | 335 | **134** | 443 |
| Gain (loss) on foreign currency translation | | **(521)** | (131) | **(617)** | (101) |
| | | **(115)** | 729 | **301** | 1,251 |
| **Earnings before income taxes** | | **4,591** | 8,554 | **18,092** | 25,376 |
| **Income Taxes** | | | | | |
| Current | | **1,270** | 2,633 | **4,304** | 7,668 |
| Future | | **230** | (1,627) | **1,610** | (842) |
| | | **1,500** | 1,006 | **5,914** | 6,826 |
| **Net Earnings and Comprehensive Income** | Note 3 | **3,091** | 7,548 | **12,178** | 18,550 |
| Retained earnings, beginning of period | | **155,994** | 133,981 | **148,781** | 124,343 |
| Dividends declared | | **(1,285)** | (1,113) | **(2,565)** | (2,225) |
| Adjustment on repurchase and cancellation of share capital | | **(182)** | (604) | **(776)** | (856) |
| **Retained Earnings, end of period** | | **$ 157,618** | $ 139,812 | **$ 157,618** | $ 139,812 |
| **Earnings per Class A and Class B share** | Note 4 | | | | |
| Basic | | **$ 0.17** | $ 0.41 | **$ 0.67** | $ 1.00 |
| Diluted | | **$ 0.16** | $ 0.40 | **$ 0.66** | $ 0.99 |

# Consolidated Statements of Cash Flows

| | Three Months ended June 30 | | Six Months ended June 30 | |
|---|---|---|---|---|
| Unaudited ($000's) | **2007** | 2006 | **2007** | 2006 |
| **Operating Activities** | | | | |
| Net earnings | **$ 3,091** | $ 7,548 | **$ 12,178** | $ 18,550 |
| Non-cash items included in earnings | | | | |
| Depreciation | **2,622** | 3,093 | **7,588** | 7,855 |
| Future income taxes | **230** | (1,627) | **1,610** | (842) |
| Expense for defined benefit pension plan | **66** | 66 | **131** | 135 |
| Stock options charged to expense | **75** | 13 | **310** | 22 |
| Gain on sale of joint venture interests in rigs and other assets | **(31)** | (335) | **(134)** | (443) |
| Funds flow from operations | **6,053** | 8,758 | **21,683** | 25,277 |
| Change in non-cash working capital | **20,021** | 19,067 | **(6,729)** | 6,426 |
| | **26,074** | 27,825 | **14,954** | 31,703 |
| **Investing Activities** | | | | |
| Capital expenditures | **(15,681)** | (13,300) | **(25,558)** | (18,259) |
| Proceeds on sale of joint venture interests in rigs and other assets | **32** | 432 | **171** | 572 |
| Change in non-cash working capital | **(775)** | 902 | **(460)** | 658 |
| | **(16,424)** | (11,966) | **(25,847)** | (17,029) |
| **Financing Activities** | | | | |
| Decrease in bank indebtedness | **(2,850)** | — | — | — |
| Dividends paid | **(1,285)** | (1,113) | **(2,565)** | (2,225) |
| Proceeds received on exercise of stock options | **—** | 82 | **—** | 205 |
| Repurchase of share capital | **(197)** | (623) | **(840)** | (879) |
| Change in non-cash working capital | **(26)** | 1,846 | **—** | 77 |
| | **(4,358)** | 192 | **(3,405)** | (2,822) |
| **Increase (Decrease) in Cash** | **5,292** | 16,051 | **(14,298)** | 11,852 |
| Cash position, beginning of period | **30,337** | 38,486 | **49,927** | 42,685 |
| **Cash Position, end of period** | **$ 35,629** | $ 54,537 | **$ 35,629** | $ 54,537 |
| Interest paid during the period | **$ 6** | $ — | **$ 39** | $ — |
| Income taxes paid during the period | **$ 1,583** | $ 2,391 | **$ 9,056** | $ 9,871 |

# Notes to Consolidated Financial Statements

Periods ended June 30, 2007 and June 30, 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. The accounting policies and procedures used in assembling these interim financial 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 3 below. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and notes to the consolidated financial 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. 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.

## 2. Class A Non-Voting and Class B Common Shares

Class A Non-Voting and Class B Common shares issued and outstanding are as follows:

| (Number of shares) | **June 30, 2007** | December 31, 2006 |
|---|---|---|
| Class A Non-Voting | **16,618,258** | 16,668,258 |
| Class B Common | **1,654,284** | 1,654,284 |
| | **18,272,542** | 18,322,542 |

As at June 30, 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, 174,400 are exercisable for an average exercise price of $9.62.

## 3. Comprehensive Income and Financial Instruments

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. During the period, the Company did not recognize any gains or losses on available for sale financial instruments, and therefore the Company had no "Other Comprehensive Income" during the period.

## 4. Earnings per Share

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Net earnings (Dollars in Thousands) | **$ 3,091** | $ 7,548 | **$ 12,178** | $ 18,550 |
| Weighted average outstanding shares - basic | **18,273,218** | **18,557,184** | **18,283,591** | 18,548,765 |
| Incremental shares for diluted earnings per share calculation | **91,141** | 113,795 | **92,535** | 117,456 |
| Basic earnings per share ($) | **$ 0.17** | $ 0.41 | **$ 0.67** | $ 1.00 |
| Diluted earnings per share ($) | **$ 0.16** | $ 0.40 | **$ 0.66** | $ 0.99 |

## 5. Segmented 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 | Domestic | | Alaska | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Three Months Ended June 30 | | | | | | |
| Revenue | **$ 25,077** | $ 32,094 | **$ 2,268** | $ 835 | **$ 27,345** | $ 32,929 |
| Net earnings | **$ 2,545** | $ 7,313 | **$ 546** | $ 235 | **$ 3,091** | $ 7,548 |
| Six Months Ended June 30 | | | | | | |
| Revenue | **$ 72,285** | $ 91,210 | **$ 7,933** | $ 2,914 | **$ 80,218** | $ 94,124 |
| Net earnings | **$ 10,269** | $ 18,013 | **$ 1,909** | $ 537 | **$ 12,178** | $ 18,550 |

# Corporate Information

## Directors

William L. Britton, Q.C.
Vice Chairman of the Board, 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 Company
Calgary, Alberta

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

C. Perry Spitznagel
Partner, 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 Financial Officer

Karl A. Ruud
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.A)
Class B Common (AKT.B)

## Website

www.akita-drilling.com