Q3

To the Shareowners

AKITA Drilling Ltd.'s net earnings for the three months ended September 30, 2010 were $1,814,000 ($0.10 per share) on revenue of $25,860,000 compared to $752,000 ($0.04 per share) on revenue of $20,871,000 for the corresponding period in 2009. Funds flow from operations for the quarter ended September 30, 2010 was $7,258,000 compared to $3,169,000 in the corresponding quarter in 2009.

Earnings for the nine months ended September 30, 2010 were $2,262,000 ($0.12 per share) on revenue of $78,452,000. Comparative figures for 2009 were earnings of $5,215,000 ($0.29 per share) on revenue of $80,448,000. Funds flow from operations for the period was $18,082,000 compared to $17,970,000 in the corresponding nine month period in 2009.

Drilling activity has recovered from the all time lows seen in 2009. While activity levels have improved, day rates still trail last year and remain well below levels experienced in the peak years of 2006 and 2007. Operating statistics for the first nine months of 2010 and 2009 are as follows:

		Number of Drilling Rigs		Operating Days *(Third Quarter)*	Operating Days *(Year-to-Date)*
		Gross	Net		
Canadian Operations	**2010**	**37**	**34.225**	**1,382**	**3,938**
	2009	39	36.225	808	2,875
U.S. Operations	**2010**	**2**	**1.0**	**5**	**23**
	2009	2	1.0	185	395
Total	**2010**	**39**	**35.225**	**1,387**	**3,961**
	2009	41	37.225	993	3,270

Pad drilling continues to be the most active aspect of the current drilling market. AKITA is actively pursuing pad rig opportunities and is currently retrofitting two of its conventional rigs and upgrading one additional pad rig in order to meet market demand. By the end of the year, the Company will have 11 pad rigs in its fleet. In addition, the Company was recently awarded a contract to construct a new pad rig for delivery next year.

On behalf of the Board of Directors,

Linda A. Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

Management's Discussion & Analysis

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements for the nine months ended September 30, 2010 and the audited consolidated financial statements and MD&A for the year ended December 31, 2009. References made to 2009 in this MD&A relate to the period from January 1 to September 30 unless otherwise stated. The information in this MD&A was approved by AKITA's Audit Committee on behalf of its Board of Directors on November 1, 2010 and incorporates all relevant considerations to that date.

Management has prepared this MD&A as well as the accompanying unaudited interim consolidated financial statements and notes thereof. All financial information is presented in Canadian Dollars.

Cyclical and Seasonal Nature of AKITA's Operations

Activity levels for the drilling sector of the oil and gas industry, including AKITA, are directly affected by customer exploration and development efforts which, in turn, are significantly affected by world energy prices and government policies.

Historically, AKITA has generally exceeded industry average rig utilization due to customer relations, employee expertise, safety performance, equipment quality and drilling performance. During the current year, the Company's utilization rates were negatively impacted by the high proportion of rigs that are most suited to natural gas drilling as well as the result of wet weather. Western Canadian annual drilling utilization, which, in 2009, was at a 10 year cyclical low, is summarized in the following table:

Utilization expressed in percentages	AKITA	Industry (1)
2009	**31.1**	24.8
2008	**42.2**	41.7
2007	**40.9**	37.0
2006	**56.6**	55.1
2005	**59.3**	58.8
2004	**52.2**	52.9
2003	**54.7**	53.1
2002	**46.8**	39.2
2001	**56.9**	53.0
2000	**60.0**	55.2
10 year annual average	**50.1**	47.1

(1) Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

Once AKITA's utilization rates recover further, even relatively small increases can have a significant positive financial impact on the Company's performance.

In addition to considerations regarding the cyclical nature of AKITA's business, readers should be aware of its seasonality. 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. During the second and third quarters of 2010, wet weather in many regions of Saskatchewan and Alberta adversely affected drilling activity for several projects to a greater extent than would have been expected in a typical year.

The following table summarizes third quarter and year-to-date utilization for AKITA and the Western Canadian drilling industry for 2010 and 2009:

Utilization rates expressed in percentages	*Three Months Ended September 30*		*Nine Months Ended September 30*	
	AKITA	Industry [1]	**AKITA**	Industry [1]
2010	**38.7**	40.5	**37.2**	37.9
2009	**26.3**	19.5	**29.2**	22.4

(1) Source: CAODC

Revenue and Operating & Maintenance Expenses

$Million	*Three Months Ended September 30*				*Nine Months Ended September 30*			
	2010	2009	Change	% Change	**2010**	2009	Change	% Change
Revenue	**25.9**	20.9	5.0	24%	**78.5**	80.4	(1.9)	(2%)
Operating & Maintenance Expenses	**14.7**	14.9	(0.2)	(1%)	**49.3**	51.0	(1.7)	(3%)

Overall revenue decreased to $78,452,000 during the first nine months of 2010 compared to $80,448,000 during the first nine months of 2009. Although demand has been somewhat higher during the January to September period in 2010 than during the corresponding period in 2009, revenue rates were lower than for the corresponding period in 2009. The lower rates were partly due to weak market conditions throughout 2009, thereby resulting in declining day rates. These rates stabilized towards the end of 2009 (or in some cases in the first six months of 2010) and have been improving since. In addition, much of the increase in activity in the current year was for wells requiring conventional rigs, which typically generate lower revenue per day compared to pad rigs. Revenue per operating day decreased to $19,806 during the first nine months of 2010 compared to $24,602 per operating day in the corresponding nine month period of 2009. Operating and maintenance costs are also tied to activity levels and amounted to $49,346,000 or $12,458 per operating day during the first nine months of 2010 compared to $50,951,000 or $15,581 per operating day in the corresponding period of the prior year. As a consequence of an increased proportion of work being for conventional applications during the first nine months of 2010, the Company's "per-day" operating margin (being the difference between revenue per day and operating and maintenance costs per day) decreased to $7,348 compared to the daily operating margin of $9,021 for the corresponding period in 2009.

During the third quarter of 2010, overall revenue increased to $25,860,000 compared to $20,871,000 during the corresponding period in 2009 due to higher activity, particularly for conventional rigs, as described in the year-to-date analysis in the preceding paragraph. Nevertheless, on a "per operating day" basis, third quarter revenue decreased to $18,645 in 2010 compared to $21,018 per day in 2009, mainly as a result of

conventional drilling activity which typically requires a lesser amount of services compared to pad drilling. Operating and maintenance costs for the third quarter amounted to $14,721,000 or $10,614 per operating day during 2010 compared to $14,852,000 or $14,957 per operating day for 2009. As a result of some improvements in drilling, particularly as they relate to the exploration and development of crude oil, the Company's "per-day" operating margin for the third quarter of 2010 was $8,031 compared to a "per-day" margin of $6,061 during the third quarter of 2009.

In 2006, the Company entered into a multi-year daywork contract for the provision of drilling services which includes certain pre-payment requirements. Additionally, from time to time, the Company receives pre-payment for work not yet performed. As a result of these two factors, the Company has recorded $985,000 at September 30, 2010 as deferred revenue in accordance with its revenue recognition policy (September 30, 2009 - $1,148,000).

Depreciation Expense

$Million	*Three Months Ended September 30*				*Nine Months Ended September 30*			
	2010	2009	Change	% Change	**2010**	2009	Change	% Change
Depreciation Expense	**5.4**	3.6	1.8	50%	**16.2**	12.8	3.4	27%

The depreciation expense increase to $16,154,000 during the first nine months of 2010 from $12,833,000 over the corresponding period in 2009 was attributable to a higher average cost base due to the addition of new rigs to AKITA's fleet, major upgrades to existing rigs and an overall increase in rig activity both on a year-to-date basis and for the comparative third quarters. AKITA's rigs are depreciated on a unit of production basis. Drilling rig depreciation accounted for 80% of total depreciation expense in the first nine months of 2010 (2009 - 68%).

Selling and Administrative Expense

$Million	*Three Months Ended September 30*				*Nine Months Ended September 30*			
	2010	2009	Change	% Change	**2010**	2009	Change	% Change
Selling & Administrative Expense (total expense)	**3.3**	1.3	2.0	154%	**10.2**	9.4	0.8	9%
Selling & Administrative Expense (excluding non-recurring item)	**3.3**	2.8	0.5	18%	**10.2**	10.8	(0.6)	(6%)

During the third quarter of 2009, the Company recorded a one-time reduction of $1,458,000 against its pension liability account as a result of the receipt of an updated actuarial report. No similar event occurred in the current year. Selling and administrative expenses were 12.9% of total revenue in the first nine months of 2010 compared to 11.6% of total revenue in the corresponding nine month period of 2009.

The single largest component of Selling and Administrative Expense was salaries and benefits, which over the year-to-date period accounted for 57% of these expenses (52% in 2009).

Other Income (Expense)

$Million	Three Months Ended September 30				Nine Months Ended September 30			
	2010	2009	Change	% Change	**2010**	2009	Change	% Change
Interest Income	**0.2**	0.1	0.1	100%	**0.6**	0.4	0.2	50%
Gain on Sale of Joint Venture Interests and Other Assets	**0.0**	0.0	0.0	N/A	**0.1**	0.1	(0.0)	(0%)
Gain (Loss) on Foreign Currency Translation	**(0.0)**	(0.1)	0.1	N/A	**0.0**	(0.2)	0.2	N/A

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. During the first nine months of 2010, interest income increased to $550,000 from $403,000 in the corresponding period in 2009 as a result of an increase in the average short-term interest rates achieved.

The gain on sale of joint venture interests in rigs and other assets totalled $50,000 in 2010, compared to $79,000 in the first nine months of 2009.

In the first nine months of 2010, due to the decreased size and scope of the Company's United States operations combined with the appreciation of the Canadian dollar, the Company recorded a gain from foreign currency translation of $19,000 from its United States operations, compared to a loss from foreign currency translation of $231,000 in the first nine months of 2009. An additional positive foreign currency adjustment of $20,000 (before a tax adjustment of $6,000) was recorded through comprehensive income compared to a negative foreign currency adjustment of $430,000 in the first nine months of 2009.

Income Tax Expense

$Million	Three Months Ended September 30				Nine Months Ended September 30			
	2010	2009	Change	% Change	**2010**	2009	Change	% Change
Current Tax Expense	**0.9**	0.0	0.9	N/A	**1.7**	0.7	1.0	143%
Future Tax Expense (Recovery)	**(0.1)**	0.3	(0.4)	(133%)	**(0.6)**	1.6	(2.2)	(138%)

Overall, income tax expense decreased to $1,158,000 in the first nine months of 2010 from $2,332,000 in the corresponding period in 2009, due to lower pre-tax earnings, which was partially offset by a higher income tax rate for general income items based upon the jurisdictional source for that income. Income tax expense in the three month period ended September 30, 2010 increased to $816,000 compared to $349,000 in the corresponding quarter in 2009 primarily as a result of higher pre-tax earnings for current year's third quarter.

Net Earnings and Funds Flow

$Million	Three Months Ended September 30				Nine Months Ended September 30			
	2010	2009	Change	% Change	**2010**	2009	Change	% Change
Net Earnings	**1.8**	0.8	1.0	125%	**2.3**	5.2	(2.9)	(56%)
Funds Flow from Operations (1)	**7.3**	3.2	4.1	128%	**18.1**	18.0	0.1	1%

(1) See commentary regarding Non-GAAP Measure

During the three months ended September 30, 2010, net earnings increased to $1,814,000 or $0.10 per Class A Non-Voting and Class B Common share ($0.10 diluted earnings per share) compared to $752,000 ($0.04 basic and diluted earnings per share) for the corresponding period in 2009. Quarterly funds flow from operations increased to $7,258,000 for the three months ended September 30, 2010 compared to $3,169,000 for the corresponding period in 2009. Higher activity levels combined with higher margins were the primary reasons for the increase in both quarterly net earnings and funds flow when compared to the corresponding period in the preceding year. The increase in 2010 third quarter funds flow from operations compared to 2009 third quarter funds flow from operations was more significant than the increase in net earnings for the corresponding periods due to the increased level of depreciation in the current year.

Net earnings decreased to $2,262,000 or $0.12 per Class A Non-Voting and Class B Common share ($0.12 diluted earnings per share) for the first nine months of 2010 compared to $5,215,000 or $0.29 per share ($0.29 diluted earnings per share) in the corresponding period in 2009. Funds flow from operations increased to $18,082,000 in the first nine months of 2010 compared to $17,970,000 in the corresponding period in 2009. Although earnings and funds flow from operations were stronger in the third quarter of 2010 compared to the corresponding period in 2009, weaker margins, particularly for conventional rigs in the first six months of 2010, adversely affected financial results for the first nine months of 2010.

A reconciliation from funds flow to cash flow is included in the following section of this MD&A.

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 and involves including operating cash flow before discontinued operations and working capital changes. Management and certain investors may find funds 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. The following table reconciles funds flow and cash flow from operations:

$Thousands	*Three Months Ended September 30*		*Nine Months Ended September 30*	
	2010	2009	**2010**	2009
Funds flow from operations	**7,258**	3,169	**18,082**	17,970
Change in non-cash working capital	**3,870**	1,755	**7,092**	10,731
Cash flow from operations	**11,128**	4,924	**25,174**	28,701

Fleet and Rig Utilization

AKITA had 39 drilling rigs, including nine that operated under joint ventures, (35.225 net to AKITA) at the end of the third quarter of 2010, compared to 41 rigs (37.225 net) in the corresponding period of 2009. In the first nine months of 2010, AKITA achieved 3,961 operating days, which corresponded to a utilization rate of 37.2% for the period. During the comparative period in 2009, the Company achieved 3,270 operating days, which corresponded to a utilization rate of 29.2%. In the third quarter of 2010, AKITA achieved 1,387 operating days, which corresponded to a utilization rate of 38.7% for the period. In the third quarter of 2009, the Company achieved 993 operating days, representing 26.3% utilization.

The Company has two rigs located in Alaska, with the balance positioned in Canada. This status remained unchanged during the first nine months of 2010.

Liquidity and Capital Resources

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 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, sell assets or take on long-term debt.

Since 2000, dividend rates have increased six times with no decreases. Also, during the 10 year period since 2000, AKITA repurchased 1,184,029 Class A Non-Voting shares through Normal Course Issuer Bids, issued 440,000 Class A Non-Voting shares upon exercise of stock options and issued 666,700 Class A Non-Voting shares upon conversion of preferred shares.

The Company typically maintains a conservative balance sheet due to the cyclical nature of the industry. Accordingly, the balance sheet generally includes significant cash balances to provide a safeguard in the event of a downturn. These cash balances also enhance the Company's ability to finance strategic growth opportunities as they become available.

Capital expenditures totalled $15,755,000 in the first nine months of 2010 compared to $10,301,000 for the corresponding period in 2009. Current year costs included spending directed to the conversion and upgrade of three rigs into pad rigs suitable for oilsands drilling or shale gas drilling as well as upgrading two of the Company's conventional rigs by adding moving systems, thereby converting them into pad rigs for shallow capacity opportunities.

At September 30, 2010, AKITA's balance sheet included working capital (current assets minus current liabilities) of $69,643,000 compared to working capital of $66,580,000 at September 30, 2009 and working capital of $69,819,000 at December 31, 2009. The seasonal nature of AKITA's business typically affects non-cash working capital balances from quarter to quarter. Accounts receivable, and to a lesser extent accounts payable balances, have the greatest impact on non-cash working capital balances.

During 2007, the Company guaranteed bank loans made to joint venture partners totalling $4,500,000 for a period of four years. The Company provided an assignment of monies on deposit totalling $5,000,000 with respect to these loans. In the first quarter of 2010, the assignment of monies on deposit was reduced to $2,500,000. These funds have been classified as "restricted cash" on the balance sheet. The Company's security from its partners for these guarantees includes interests in specific rig assets.

During 2010, the Company repurchased 158,104 Class A Non-Voting Shares at an average price of $8.53 pursuant to its Normal Course Issuer Bid. The Company did not purchase any shares pursuant to its Normal Course Issuer Bid during the first nine months of 2009.

From time to time, the Company may finance certain activities with the use of long-term debt. During the past 10 year period, the Company borrowed $40 Million of long-term debt to help finance the construction of certain drilling rigs. The Company did not have any long-term debt during the nine months ending September 30, 2010 or during 2009.

Contractual obligations are substantially the same as described in AKITA's MD&A for the year ended December 31, 2009.

Summary of Quarterly Results

The following table shows key quarterly financial information for the Company:

$ Thousands, except per share *Three Months Ended*	**Mar. 31**	**June 30**	**Sept. 30**	Dec. 31
2010				
Revenue	**33,235**	**19,357**	**25,860**	
Net earnings (loss)	**1,015**	**(567)**	**1,814**	
Basic earnings (loss) per share ($)	**0.06**	**(0.03)**	**0.10**	
Diluted earnings (loss) per share ($)	**0.06**	**(0.03)**	**0.10**	
Funds flow from operations	**7,066**	**3,758**	**7,258**	
Cash flow from (used in) operations	**(2,650)**	**16,696**	**11,128**	
2009				
Revenue	41,696	17,881	20,871	25,815
Net earnings	3,908	555	752	3,165
Basic earnings per share ($)	0.21	0.03	0.04	0.18
Diluted earnings per share ($)	0.21	0.03	0.04	0.18
Funds flow from operations	12,051	2,750	3,169	5,990
Cash flow from operations	11,258	12,519	4,924	534
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
Funds flow from continuing operations	14,274	3,335	7,723	8,817
Cash flow from (used in) operations	(1,325)	19,815	(6,342)	7,219

Future Outlook

Consistent with the second quarter, certain aspects of the drilling market appear to be either strong or improving while others continue to be either weak or very weak.

Management believes that pad drilling, which has led the market during 2009 and for the first nine months of the current year, will continue to be the most profitable aspect of AKITA's business in the short and medium

term, and potentially beyond. AKITA began 2010 with eight pad rigs. During the year, the Company added moving systems to two of its light capacity double rigs in order to drill on a specialized program. AKITA is also converting one of its arctic rigs into a pad rig suitable for drilling up to 4,000 metres for either heavy oil or shale gas prospects and is upgrading capacity on one of its existing pad rigs. Consequently, by the end of 2010, AKITA will have 11 pad rigs in its fleet.

During the third quarter, the Company also agreed to construct a new pad rig for heavy oil drilling for a major independent oil and gas company.

Demand is expected to continue to be strong for conventional heavy capacity double sized rigs and light capacity triple sized rigs. The Company has six rigs that are suitable for this market segment.

Potash related drilling has been delayed as a result of wet weather, but management expects this market activity to increase in the last quarter of 2010. Management anticipates two rigs will be involved in potash related drilling.

Utilization for other rigs in AKITA's fleet will probably improve more slowly for the balance of the year. Due to the low price of natural gas, most opportunities relate to either drilling for crude oil targets or for natural gas opportunities that include liquid forms of hydrocarbons in the well formations. Shallow drilling activity has increased somewhat but is highly weather dependent and has been adversely affected by wet weather. Although management anticipates continuing improvement in utilization for this portion of the fleet, day rates remain very competitive. By winter, demand for shallow rigs and their associated day rates should both improve. Deep drilling for conventional oil and gas targets is largely gas focused and is not anticipated to improve significantly until the price of natural gas recovers.

Changeover Plan for IFRS

A detailed changeover plan related to the implementation of International Financial Reporting Standards (IFRS) in 2011 as a replacement for the existing Canadian Generally Accepted Accounting Principles (Canadian GAAP) was presented in the Company's 2009 annual report. Although the Company is not in a position to quantify the impacts of IFRS at this time, timetables laid out in the annual report are still generally effective and no deviation from that plan exists at this time other than the deferral of the final selection of accounting policies and IFRS1 choices until at least the fourth quarter of 2010. Management identified areas where reporting under IFRS differs most significantly from reporting under Canadian GAAP in the Company's Annual Report. Although certain minor nuances have been identified since that time, no major items have been identified. Management remains satisfied that it will be able to fully implement and report its results under IFRS once this transition occurs.

Although management anticipates numerous changes in the nature and amount of disclosure required under IFRS vis-à-vis Canadian GAAP, the measurement of the Company's income will be influenced primarily by two considerations.

First, the method of depreciation for the Company's principle capital assets will be separated into components. As the assets are depreciated using a unit of production basis, the actual expense charge will be dependent upon which assets actually work during a period. This may result in earnings that are either higher or lower than under Canadian GAAP accounting. This change will not affect cash flow from operations for the Company.

The other major change that will also impact earnings relates to the capitalization under IFRS of certain costs that are currently being charged to expense. As this change will be applied retrospectively, the actual impact on earnings will be related to the level of expenditure during a period compared to the average level of expenditure for the unamortized costs that will be capitalized. Management expects that this will result in a reduction in earnings during periods of slower activity and an increase in earnings during periods of higher activity. These earnings impacts will be manifested through new depreciation charges within the operating and maintenance expense category. This change will also result in an increase in cash flow from operations which will be offset by a decrease in cash flow through investing activities.

A significant issue that will affect the presentation of most of the balances reported on the financial statements, but will not affect either net earnings or cash flow relates to the method of accounting for joint ventures. Currently, the Company reports its joint venture activities using the proportionate consolidation method of accounting. IFRS has issued an exposure draft proposing that joint ventures be recorded using the equity method of accounting. As this exposure draft is not currently binding, the Company is continuing to evaluate whether it wishes to early adopt the equity method of accounting with respect to joint venture operations or whether it will continue to report joint venture activities using proportionate consolidation during the upcoming year.

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 legislation and 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.

Management's Responsibility for Financial Information

AKITA's CEO and CFO have signed certifications relating to the effectiveness of the financial disclosures in the interim MD&A and the interim consolidated financial statements for the period ended September 30, 2010 and relating to the design of the Company's disclosure controls and procedures and internal control over financial reporting. These certifications state that the design of the Company's disclosure controls and procedures and internal control over financial reporting are effective.

AKITA's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions

of AKITA, provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with Canadian GAAP, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of AKITA's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There were no changes in internal control over financial reporting during the quarter ended September 30, 2010 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Consolidated Balance Sheets

Unaudited		September 30		December 31
($000's)		**2010**	2009	2009
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		**$ 41,073**	$ 56,547	$ 34,142
Term deposits		**18,000**	—	18,000
Accounts receivable		**22,125**	19,351	28,523
Income taxes recoverable		**—**	1,219	330
Other		**688**	1,126	421
		81,886	78,243	81,416
Restricted cash		**2,500**	5,000	5,000
Capital assets		**147,341**	150,401	147,799
		$ 231,727	$ 233,644	$ 234,215
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		**$ 9,729**	$ 9,082	$ 10,123
Dividends payable		**1,266**	1,276	1,277
Income taxes payable		**263**	—	—
Deferred revenue		**985**	1,148	197
Current portion of pension liability		**—**	157	—
		12,243	11,663	11,597
Future income taxes		**19,492**	20,177	20,041
Pension liability		**1,205**	2,339	1,131
		32,940	34,179	32,769
CLASS A AND CLASS B SHAREHOLDERS' EQUITY				
Class A and Class B shares	Note 2	**23,199**	23,359	23,376
Contributed surplus		**2,462**	2,271	2,271
Accumulated other comprehensive income	Note 5	**(340)**	(430)	(354)
Retained earnings		**173,466**	174,265	176,153
		198,787	199,465	201,446
		$ 231,727	$ 233,644	$ 234,215

Consolidated Statements of Earnings and Retained Earnings

Unaudited ($000's)		Three Months Ended September 30		Nine Months Ended September 30	
		2010	2009	**2010**	2009
REVENUE		**$ 25,860**	20,871	**$ 78,452**	$ 80,448
COSTS AND EXPENSES					
Operating and maintenance		**14,721**	14,852	**49,346**	50,951
Depreciation		**5,353**	3,586	**16,154**	12,833
Selling and administrative		**3,333**	1,311	**10,151**	9,368
		23,407	19,749	**75,651**	73,152
REVENUE LESS COSTS AND EXPENSES		**2,453**	1,122	**2,801**	7,296
OTHER INCOME (EXPENSE)					
Interest income		**176**	115	**550**	403
Gain on sale of joint venture interests in rigs and other assets		**4**	—	**50**	79
Gain (loss) on foreign currency translation		**(3)**	(136)	**19**	(231)
		177	(21)	**619**	251
EARNINGS BEFORE INCOME TAXES		**2,630**	1,101	**3,420**	7,547
INCOME TAXES					
Current		**882**	44	**1,712**	710
Future		**(66)**	305	**(554)**	1,622
		816	349	**1,158**	2,332
NET EARNINGS		**1,814**	752	**2,262**	5,215
Retained earnings, beginning of period		**172,912**	174,789	**176,153**	172,878
Dividends declared		**(1,260)**	(1,276)	**(3,812)**	(3,828)
Adjustment on repurchase and cancellation of share capital		**—**	—	**(1,137)**	—
RETAINED EARNINGS, END OF PERIOD		**$ 173,466**	$ 174,265	**$ 173,466**	$ 174,265
EARNINGS PER CLASS A AND CLASS B SHARE	Note 3				
Basic		**$ 0.10**	$ 0.04	**$ 0.12**	$ 0.29
Diluted		**$ 0.10**	$ 0.04	**$ 0.12**	$ 0.29

Consolidated Statements of Cash Flows

Unaudited ($000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	**2010**	2009
OPERATING ACTIVITIES				
Net earnings	**$ 1,814**	$ 752	**$ 2,262**	$ 5,215
Non-cash items included in net earnings				
Depreciation	**5,353**	3,586	**16,154**	12,833
Future income taxes	**(49)**	225	**(549)**	1,359
Expense for defined benefit pension plan	**25**	(1,394)	**74**	(1,358)
Stock options charged to expense	**119**	—	**191**	—
Gain on sale of joint venture interests in rigs and other assets	**(4)**	—	**(50)**	(79)
Funds flow from operations*	**7,258**	3,169	**18,082**	17,970
Change in non-cash working capital	**3,870**	1,755	**7,092**	10,731
	11,128	4,924	**25,174**	28,701
INVESTING ACTIVITIES				
Capital expenditures	**(7,832)**	(1,955)	**(15,755)**	(10,301)
Reduction in cash restricted for loan guarantees	**—**	—	**2,500**	—
Proceeds on sale of joint venture interests in rigs and other assets	**4**	—	**109**	190
Change in non-cash working capital	**(539)**	—	**15**	—
	(8,367)	(1,955)	**(13,131)**	(10,111)
FINANCING ACTIVITIES				
Dividends paid	**(1,260)**	(1,276)	**(3,812)**	(3,828)
Repurchase of share capital	**—**	—	**(1,346)**	—
Proceeds received on exercise of stock options	**—**	—	**32**	47
	(1,260)	(1,276)	**(5,126)**	(3,781)
FOREIGN CURRENCY TRANSLATION	**39**	(178)	**14**	(430)
INCREASE IN CASH	**1,540**	1,515	**6,931**	14,379
Cash position, beginning of period	**39,533**	55,032	**34,142**	42,168
CASH POSITION, END OF PERIOD	**$ 41,073**	$ 56,547	**$ 41,073**	$ 56,547
Interest paid during the period	**$ 14**	$ 9	**$ 17**	$ 24
Income taxes paid during the period (net of refunds)	**$ (34)**	$ 439	**$ 1,119**	$ 4,126

* Funds flow from operations is not a recognized measure under Canadian Generally Accepted Accounting Principles.

Consolidated Statements of Comprehensive Income

Unaudited ($000's)		Three Months Ended September 30		Nine Months Ended September 30	
		2010	2009	**2010**	2009
NET EARNINGS		**$ 1,814**	$ 752	**$ 2,262**	$ 5,215
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment	Note 5	**39**	(178)	**14**	(430)
COMPREHENSIVE INCOME		**$ 1,853**	$ 574	**$ 2,276**	$ 4,785

Notes to Consolidated Financial Statements

Periods ended September 30, 2010 and September 30, 2009
(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 contract drilling services). The accounting policies and procedures used in assembling these interim consolidated financial statements are the same as those used in preparing the audited consolidated financial statements for the year ended December 31, 2009. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and the notes thereof included in the Company's 2009 Annual Report. Due to the seasonality of the industry, the operating and financial results for the interim period covered do not necessarily reflect overall results which may be achieved in the fiscal year.

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)	***September 30, 2010***	*September 30, 2009*	*December 31, 2009*
Class A Non-Voting	**16,430,229**	16,578,333	16,582,333
Class B Common	**1,654,284**	1,654,284	1,654,284
	18,084,513	18,232,617	18,236,617

As at September 30, 2010, a cumulative total of 285,500 stock options are outstanding to directors and officers of the Company at exercise prices varying from $5.40 to $9.94, with expiry dates up to 2020. Of these stock options, 154,000 are exercisable for an average exercise price of $8.55.

During the second quarter of 2010, the Company granted 157,500 options to purchase Class A Non-Voting Shares at an exercise price of $9.87 per share. The options have a term of ten years and vest over the first four years.

The Company used the Binomial model to value the options due to the high estimated dividend yield in relation to the risk-free interest rate, which estimated the fair value of the options granted at $2.98 per option using the following assumptions:

Risk free interest rate	**3.09%**
Expected holding period prior to exercise	**7.0 years**
Expected share price volatility	**34.9%**
Expected dividend yield	**3.3%**

3. Earnings per Share

($Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	**2010**	2009
Net earnings	**$ 1,814**	$ 752	**$ 2,262**	$ 5,215
Weighted average outstanding shares - basic	**18,084,513**	18,232,617	**18,160,507**	18,229,606
Incremental shares for diluted earnings per share calculation	**14,029**	17,919	**16,970**	15,097
Basic earnings per share ($)	**$ 0.10**	$ 0.04	**$ 0.12**	$ 0.29
Diluted earnings per share ($)	**$ 0.10**	$ 0.04	**$ 0.12**	$ 0.29

4. Capital Disclosures

The Company has determined capital to include long-term debt ($Nil at December 31, 2009 and September 30, 2010) and share capital. 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 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, sell assets or take on long-term debt.

5. Accumulated Other Comprehensive Income

Other comprehensive income of the Company is comprised of the foreign currency translation adjustment relating to self-sustaining foreign operations. Changes in accumulated other comprehensive income are summarized below:

($Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	**2010**	2009
Accumulated comprehensive income, beginning of period	**$ (379)**	$ (252)	**$ (354)**	$ -
Other comprehensive income for the period before taxes	**57**	(258)	**20**	(614)
Future income taxes (recovered)	**18**	(80)	**6**	(184)
Other comprehensive income for the period	**39**	(178)	**14**	(430)
Accumulated comprehensive income, end of period	**$ (340)**	$ (430)	**$ (340)**	$ (430)

6. Financial Instruments

The Company's financial assets and liabilities include cash and cash equivalents, term deposits, restricted cash, accounts receivable, accounts payable and accrued liabilities. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated. Transaction costs, if incurred, have been charged to expense. The Company has adopted the following classification for financial assets and liabilities:

- Cash, cash equivalents, term deposits 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"

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 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:

($Thousands)	***September 30, 2010***	*September 30, 2009*	*December 31, 2009*
Within 30 days	**$ 15,707**	$ 15,621	$ 22,987
31 to 60 days	**4,431**	3,358	4,530
61 to 90 days	**1,261**	70	971
Over 90 days	**833**	440	148
Allowance for doubtful accounts	**(107)**	(138)	(113)
Accounts receivable	**$ 22,125**	$ 19,351	$ 28,523

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. AKITA's exposure was limited substantially to its operations in Alaska, which constituted 5% of its business for the nine month period ended September 30, 2010 (year ended December 31, 2009 – 13%).

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At September 30, 2010 and December 31, 2009, exposure was limited due to having cash balances significantly in excess of total current liabilities.

7. Segmented Information

The Company operates in one business segment providing contract drilling services for its customers. Results for the past two years, as stated in Canadian dollars, are as follows:

($Thousands)	Canada		United States		Total	
	2010	2009	**2010**	2009	**2010**	2009
Three Months Ended September 30						
Revenue	**$ 24,170**	$ 17,683	**$ 1,690**	$ 3,188	**$ 25,860**	$ 20,871
Net earnings	**$ 1,364**	$ 368	**$ 450**	$ 384	**$ 1,814**	$ 752
Nine Months Ended September 30						
Revenue	**$ 74,913**	$ 68,058	**$ 3,539**	$ 12,430	**$ 78,452**	$ 80,488
Net earnings	**$ 1,530**	$ 2,822	**$ 732**	$ 2,393	**$ 2,262**	$ 5,215
Total assets at September 30	**$ 221,862**	$ 222,226	**$ 10,865**	$ 11,418	**$ 231,727**	$ 233,644

Corporate Information

Directors

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

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

Karl A. Ruud
President and Chief Executive Officer of the Company
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, Q.C.
Vice Chairman and Managing Partner (Calgary),
Bennett Jones LLP
Calgary, Alberta

Charles W. Wilson
Corporate Director
Evergreen, Colorado

Officers

Raymond T. Coleman
Vice President, Operations

Fred O. Hensel
Vice President, Marketing

Craig W. Kushner
Corporate Secretary and Human Resources Administrator

John M. Pahl
Vice President, Joint Ventures and Business Development

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

Karl A. Ruud
President and Chief Executive Officer

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Banker

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Counsel

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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