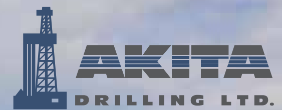

Interim report for 3 months
ended March 31, 2016

Letter to the Shareowners

AKITA Drilling Ltd.'s net income for the three months ended March 31, 2016 was $18,173,000 ($1.01 per share basic & diluted) on revenue of $41,991,000 compared to net income of $4,218,000 ($0.24 per share basic; $0.23 per share diluted) on revenue of $46,715,000 for the corresponding period in 2015. Funds flow from operations for the quarter ended March 31, 2016 was $25,368,000 compared to $14,059,000 in the corresponding quarter in 2015. The current year-to-date results included significant contract cancellation revenue relating to an early termination of a multi-year contract.

During the first quarter of 2016, crude oil prices remained volatile with price fluctuations for West Texas Intermediate ("WTI") ranging from $26.21 USD to $41.45 USD, pricing that was significantly below the 5 year WTI average. Natural gas prices (as per AECO spot prices) were also considerably weaker with a 30% reduction over the corresponding period of 2015. Prolonged low commodity prices have drastically reduced the capital spending by oil and gas companies which has greatly impacted the level of drilling activity in western Canada. During the first quarter of 2016, the western Canadian active rig count was the lowest in over 15 years, declining from an average of 291 active rigs in Q1 of 2015 to 153 active rigs in Q1 of 2016. Weak market conditions had a correspondingly significant impact on AKITA's activity levels and overall profitability from drilling operations, achieving only 598 operating days in the first quarter of 2016 compared to 1,635 operating days in the corresponding period of 2015. AKITA also experienced reductions in day rates ranging from 15% to 25% per rig category over the same time frame. AKITA's pad rig activity represented 78% of the total operating days, a percentage that was comparable to the first quarter of 2015.

Management's focus during 2015 and into 2016 has been to improve AKITA's already strong balance sheet. The Company improved working capital from $5,350,000 at March 31, 2015 to $30,759,000 at March 31, 2016. Included in the Company's March 31, 2016 working capital balance are cash and term deposits of $22,034,000. In addition, the Company has a $100,000,000 credit facility and no outstanding debt. Management has taken steps to reduce operating and capital costs wherever prudent. Capital expenditures for the first three months of 2016 were $373,000 compared to $5,017,000 for the corresponding period of 2015.

Management anticipates 2016 to continue to be a challenging year for the Company and the contract drilling industry as a whole. Despite current challenges, management believes that it has the resources to manage through this downturn while continuing to look for growth opportunities.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

Management's Discussion & Analysis

Management's discussion and analysis ("MD&A") for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements ("interim financial statements") for the three months ended March 31, 2016 and the audited consolidated financial statements and MD&A for the year ended December 31, 2015. References made to 2015 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 27, 2016 and incorporates all relevant considerations to that date.

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

Cyclical and Seasonal Nature of AKITA's Operations

Commodity prices for crude oil and natural gas are correlated to ongoing drilling activity. At March 31, 2016, WTI crude oil prices closed at $36.94 USD, 32% lower than the corresponding period of 2015 and 66% lower than the corresponding period of 2014. Natural gas AECO spot prices were also weaker with a 30% reduction over the corresponding period of 2015. These significant commodity price declines have had a substantial effect on the level of drilling activity in western Canada, including for AKITA. The lower activity levels have also negatively affected the Company's day rates for its services due to increased competition from underutilized rigs throughout the industry, as detailed subsequently in this MD&A.

Typically, once utilization increases, even relatively small improvements can have a significant positive financial effect on AKITA's performance. Readers should be aware however that other influences, including changes in the proportions of drilling performed by different rig classes, can also have a significant effect on the Company's financial results.

In addition to considerations regarding the cyclical nature of AKITA's business, readers should be aware that historically, the first quarter of the calendar year is the most active in the drilling industry. Lower activity levels that result from spring break-up and associated travel bans on public roads generally characterize the second quarter. Given the unpredictability of the current market, the first quarter may not be the most active quarter this year.

Generally, AKITA exceeds industry average rig utilization rates as a result of positive customer relations, meaningful joint ventures with Aboriginal and First Nations partners, employee expertise, safety performance, equipment quality and drilling performance.

The following table summarizes first quarter utilization for AKITA and industry for 2016 and 2015:

Utilization rates expressed in percentages	AKITA	Industry[1]
2016 January to March	**21.2**	20.4
2015 January to March	**51.9**	35.4

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

During the first quarter of 2016 all rig classes experienced a significant decline in operating days, with the number of days obtained for pad rigs and conventional rigs each down over 60% when compared to the first quarter of 2015.

Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items

The Company reports its joint venture activities in the financial statements in accordance with International Financial Reporting Standards ("IFRS"), IFRS 11 "Joint Arrangements". In determining the classification of its joint arrangements, AKITA considers whether the joint arrangements are structured through separate vehicles, if the legal form of the separate vehicles confers upon the parties direct rights to assets and obligations for liabilities relating to the arrangements, whether the contractual terms between the parties confer upon them rights to assets and obligations for liabilities relating to the arrangements as well as if other facts and circumstances lead to rights for assets and obligations for liabilities being conferred upon the parties to the arrangement prior to concluding that AKITA's joint ventures are properly classified as joint ventures rather than joint operations. Under IFRS 11, AKITA is required to report its joint venture assets, liabilities and financial activities using the equity method of accounting. However, for purposes of analysis in this MD&A, the proportionate share of assets, liabilities and financial activities is included as non-standard information ("Adjusted") where appropriate. The Company provides the same drilling services and utilizes the same management, financial and reporting controls for its joint venture activities as are in place for its wholly-owned operations. None of AKITA's joint ventures are individually material in size when considered in the context of AKITA's overall operations.

During the three months ended March 31, 2016, the Company included a material contract cancellation fee in revenue. The effect of this fee has been excluded in the Company's adjusted revenue and adjusted operating margin analysis.

Operating margin, revenue per operating day, operating and maintenance expenses per operating day and operating margin per operating day are not recognized measures under IFRS. Management and certain investors may find such operating margin data to be a useful measurement tool, however, as it provides an indication of the profitability of the business prior to the influence of depreciation, overhead expenses, financing costs and income taxes. Management and certain investors may find "per operating day" measures for revenue and operating margin indicate pricing strength while operating and maintenance expenses per operating day demonstrates a degree of cost control and provides a proxy for specific inflation rates incurred by the Company. Readers should be cautioned that in addition to the foregoing, other factors, including the mix of rigs that are utilized between conventional and pad and singles, doubles and triples can also influence these results. Readers should also be aware that AKITA includes standby revenue in its determination of "per operating day" results.

Funds flow from operations is considered an additional GAAP measure under IFRS. AKITA's method of determining funds flow from operations may differ from methods used by other companies and includes cash flow from operating activities before working capital changes as well as equity income from joint ventures adjusted for income tax amounts paid during the period. 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.

Revenue and Operating & Maintenance Expenses

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Revenue per Interim Financial Statements	**42.0**	46.7	(4.7)	(10%)
Proportionate Share of Revenue from Joint Ventures (1)	**5.7**	12.8	(7.1)	(55%)
Contract Cancellation Revenue	**(28.3)**	-	(28.3)	N/A
Adjusted Revenue (1)	**19.4**	59.5	(40.1)	(67%)

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Operating & Maintenance Expenses per Interim Financial Statements	**9.2**	31.2	(22.0)	(71%)
Proportionate Share of Operating & Maintenance Expenses from Joint Ventures (1)	**3.1**	8.3	(5.2)	(63%)
Adjusted Operating & Maintenance Expenses (1)	**12.3**	39.5	(27.2)	(69%)

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Adjusted Revenue (1)	**19.4**	59.5	(40.1)	(67%)
Adjusted Operating & Maintenance Expenses (1)	**12.3**	39.5	(27.2)	(69%)
Adjusted Operating Margin (1)(2)	**7.1**	20.0	(12.9)	(65%)

$Dollars

Three Months Ended March 31	2016	2015	Change	% Change
Adjusted Revenue per Operating Day (1)	**32,462**	36,393	(3,931)	(11%)
Adjusted Operating & Maintenance Expenses per Operating Day (1)	**20,564**	24,165	(3,601)	(15%)
Adjusted Operating Margin per Operating Day (1)	**11,898**	12,228	(330)	(3%)

(1) Proportionate share of revenue from joint ventures, adjusted revenue, proportionate share of operating & maintenance expenses from joint ventures, adjusted operating & maintenance expenses, adjusted operating margin, adjusted revenue per operating day, adjusted operating & maintenance expenses per operating day and adjusted operating margin per operating day are non-standard accounting measures. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

(2) Adjusted operating margin is the difference between adjusted revenue and adjusted operating & maintenance expenses.

During the first quarter of 2016, adjusted revenue decreased to $19,412,000 ($32,462 per day) from $59,502,000 ($36,393 per day) during the first quarter of 2015. This reduction in adjusted revenue was directly attributable to weaker market conditions that broadly influenced AKITA's financial results. Revenue generated by pad triples decreased by 66% in the first quarter of 2016 when compared to the corresponding period of 2015, which had the largest impact on adjusted revenue as revenue from this rig category accounted for 71% of total adjusted revenue. Market conditions were weak enough that AKITA's conventional triples and

pad doubles generated no revenue in the first quarter of 2016. Weaker market conditions affected both the amount of work for each rig category as well as the rates that were achieved which is highlighted by the reduction in adjusted revenue per day.

While overall adjusted revenue for the first quarter of 2016 declined by 67% compared to the corresponding quarter in 2015, unadjusted revenue per the interim financial statements decreased by only 10%. Offsetting the reduction in adjusted revenue was contract cancellation revenue of $28,250,000 (Q1, 2015 - $0) relating to a multi-year contract that was cancelled in January of 2016 for one of AKITA's pad triple rigs. Payment of the contract cancellation fee was divided into three payments, including the first which was received during the first quarter of 2016. The remaining amounts are included in current and long-term receivables on the Company's Statement of Financial Position.

Adjusted operating and maintenance costs are tied to revenue and amounted to $12,297,000 ($20,564 per operating day) during the first quarter of 2016 compared to $39,509,000 ($24,165 per operating day) during the same period of the prior year. While the reduction in adjusted operating and maintenance expenses as a whole is related to fewer operating days, the reduction in the adjusted operating and maintenance expenses per operating day amount relative to the comparative period in 2015 was a result of enhanced cost controls implemented by AKITA over the last year combined with the change in the mix of rigs that worked.

The adjusted operating margin for the Company decreased to $7,115,000 in the first quarter of 2016 from $19,993,000 during the corresponding quarter of 2015. The reduction in adjusted operating margin directly resulted from weaker drilling activity during the quarter. When considered on a "per operating day basis", the adjusted operating margin during the first quarter of 2016 was 3% lower than during the corresponding first quarter of 2015 as cost controls and rig mix had a greater effect on AKITA's operating costs on a per day basis compared to the reduction in adjusted revenue per operating day which decreased 15% over the same period.

Depreciation and Amortization Expense

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Depreciation and Amortization Expense	6.3	9.1	(2.8)	(31%)

Depreciation and amortization expense decreased to $6,275,000 during the first quarter of 2016 from $9,068,000 during the corresponding period in 2015. AKITA depreciates its rig fleet on a unit of production basis and the reduction in depreciation and amortization was directly correlated to the reduction in overall drilling days. In the first quarter of 2016, drilling rig depreciation accounted for 96% of total depreciation expense (Q1, 2015 - 96%).

While AKITA conducts some of its drilling operations via joint ventures, the drilling rigs used to conduct those activities are owned jointly by AKITA and its joint venture partners, and not by the joint ventures themselves. As the joint ventures do not hold any property, plant, or equipment assets directly, the depreciation expense reported above includes depreciation on assets involved in both wholly-owned and joint ventured activities.

Selling and Administrative Expenses

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Selling & Administrative Expenses per Interim Financial Statements	4.0	4.7	(0.7)	(15%)
Proportionate Share of Selling & Administrative Expenses from Joint Ventures (1)	0.1	0.1	-	0%
Adjusted Selling & Administrative Expenses (1)	4.1	4.8	(0.7)	(15%)

(1) Proportionate share of selling and administrative expenses from joint ventures and adjusted selling and administrative expenses are non-standard accounting measures. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

Adjusted selling and administrative expenses were 21% of adjusted revenue in the first quarter of 2016 compared to 8.1% of adjusted revenue in the first quarter of 2015, largely as a result of decreased adjusted revenue in 2016 and the fixed nature of most selling and administrative expenses. Salaries and benefits accounted for 51% of these expenses (58% in Q1, 2015).

Equity Income from Joint Ventures

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Proportionate Share of Revenue from Joint Ventures (1)	5.7	12.8	(7.1)	(55%)
Proportionate Share of Operating & Maintenance Expenses from Joint Ventures (1)	3.1	8.3	(5.2)	(63%)
Proportionate Share of Selling & Administrative Expenses from Joint Ventures (1)	0.1	0.1	-	0%
Equity Income from Joint Ventures	2.5	4.4	(1.9)	(43%)

(1) Proportionate share of revenue from joint ventures, proportionate share of operating & maintenance expenses from joint ventures and proportionate share of selling & administrative expenses from joint ventures are non-standard accounting measures. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

The Company provides the same drilling services and utilizes the same management, financial and reporting controls for its joint venture activities as are in place for its wholly-owned operations. The analyses of these activities are incorporated throughout the relevant sections of this MD&A. Joint venture activities are often located in some of the most prospective regions in Canada. Two thirds of rigs utilized by AKITA's joint ventures are pad drilling rigs.

Other Income (Losses)

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Total Other Income (Losses)	0.0	(0.1)	0.1	100%

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income increased to $248,000 in the first three months of 2016 from $31,000 in the corresponding period of 2015 as a result of higher cash balances, the investment in term deposits as well as accrued interest on the receivables related to the contract cancellation fee discussed previously.

In the first quarter of 2016, the Company incurred interest expense of $40,000 related to the future cost of the Company's unfunded defined benefit pension plan. During the corresponding quarter in 2015, AKITA's interest expense of $206,000 resulted from the Company's indebtedness as well as the future cost of the Company's unfunded defined benefit pension plan.

During the first quarter of 2016, the Company sold ancillary assets for proceeds of $60,000 that resulted in a loss of $27,000. During the corresponding quarter of 2015, assets were sold for $705,000 resulting in a loss of $190,000.

During the first quarter of 2016, $197,000 of net other gains (losses) related to the discount of the long-term receivable associated with the contract cancellation fee. During the corresponding quarter in 2015, approximately 80% ($184,000) of net other gains were foreign exchange, both realized and unrealized, associated with ongoing rig construction.

Income Tax Expense

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Current Tax Expense	6.1	1.4	4.7	336%
Deferred Tax Expense	0.8	0.3	0.5	167%
Total Income Tax Expense	6.9	1.7	5.2	306%

Income tax expense increased to $6,895,000 in the first quarter of 2016 compared to $1,717,000 in the corresponding period in 2015 due to higher pre-tax earnings.

Net Income, Funds Flow and Net Cash From Operating Activities

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Net Income	18.2	4.2	14.0	333%
Funds Flow from Operations [1]	25.4	14.1	11.3	80%

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

Net income attributable to shareholders increased to $18,173,000 ($1.01 basic and diluted earnings per share) for the first quarter of 2016 from $4,218,000 ($0.24 basic earnings per share / $0.23 diluted earnings per share) in the first quarter of 2015. Funds flow from operations increased to $25,368,000 in the first quarter of 2016 from $14,059,000 during the corresponding quarter in 2015. Higher net income in 2016

was directly attributable to contract cancellation revenue and lower depreciation expense which more than offset the effects of reductions in drilling activity and reduced day rates. Funds flow from operations was similarly affected by the contract cancellation revenue; however, as funds flow from operations is not affected by depreciation expense, the increase in funds flow compared to the corresponding quarter during 2015 was less than the increase to net income.

The following table reconciles funds flow and cash flow from operations:

$Million

Three Months Ended March 31	2016	2015	Change	% Change
Funds Flow From Operations [1]	25.4	14.1	11.3	80%
Change in Non-Cash Working Capital	(3.6)	(3.5)	(0.1)	(3%)
Equity Income From Joint Ventures	(2.5)	(4.4)	1.9	43%
Change in Long-term Receivable	(9.3)	-	(9.3)	N/A
Interest Paid	-	(0.2)	0.2	100%
Current Income Tax Expense	6.1	1.4	4.7	336%
Income Tax Paid	(3.3)	(1.4)	(1.9)	(136%)
Net Cash From Operating Activities	12.8	6.0	6.8	113%

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

Fleet and Rig Utilization

AKITA had 31 drilling rigs during the first quarter of 2016, including ten that operated under joint ventures (27.725 net to AKITA), compared to 35 rigs (31.725 net) during the corresponding period of 2015 (1 new rig added and 5 rigs decommissioned). There were no changes to the Company's rig fleet during the first quarter of 2016.

Three Months Ended March 31	2016	2015	Change	% Change
Operating Days	598	1,635	(1,037)	(63%)
Utilization Rate	21.2%	51.9%	(30.7)	(59%)

Liquidity and Capital Resources

Cash used for capital expenditures totalled $373,000 in the first quarter of 2016 (Q1 2015 - $5,017,000). Current year-to-date capital expenditures were related to routine items. Approximately 70% of the prior year's first quarter capital expenditures was related to construction of a new pad rig which was completed in mid-2015.

At March 31, 2016, AKITA's Statement of Financial Position included working capital (current assets minus current liabilities) of $30,759,000 compared to working capital of $5,350,000 at March 31, 2015 and working capital of $16,002,000 at December 31, 2015. The seasonal nature of AKITA's business typically results in higher non-cash working capital balances at the end of the first quarter than at year-end due to the high seasonal activity levels encountered in the first quarter. Working capital at March 31, 2016 improved compared

to March 31, 2015 as a result of cost control over capital and operating expenses as well as the first payment and receivables associated with the contract cancellation fee.

The Company chooses to maintain a conservative Statement of Financial Position due to the cyclical nature of the industry. In addition to its cash and term deposit balances, the Company has an operating loan facility with its principal banker totalling $100,000,000 that is available until 2020. Although the facility has been provided in order to finance general corporate needs, capital expenditures and acquisitions, management intends to access this facility primarily to enable the Company to explore expansion opportunities or to fund new rig construction requirements related to drilling contracts that it might be awarded. The interest rate on the facility varies based upon the actual amounts borrowed, and ranges from 0.45% to 1.45% over prime interest rates or 1.45% to 2.45% over guaranteed notes, depending on the preference of the Company. The Company did not have any borrowings from this facility at March 31, 2016.

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 its 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 its capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, issue new shares, sell assets or take on long-term debt. Since 1999, dividend rates have increased eight times with no decreases. The last dividend increase was declared on March 5, 2014.

The Company did not have a normal course issuer bid in place during the first quarter of 2016 or 2015.

During the 10 year period since 2006, AKITA has repurchased 739,908 Class A Non-Voting shares through normal course issuer bids and issued 140,200 Class A Non-Voting shares upon exercise of stock options.

The Company had two rigs under multi-year contracts at March 31, 2016. Of these contracts, one is anticipated to expire in 2017 and one in 2018.

From time to time, the Company may provide guarantees for bank loans to joint venture partners in respect of sales of rig interests to joint venture partners. At March 31, 2016, AKITA provided $5,317,000 in deposits with its bank for those purposes (March 31, 2015 - $9,381,000 and December 31, 2015 - $5,978,000). AKITA's security from its partners for these guarantees includes interests in specific rig assets. These balances have been classified as restricted cash on the Consolidated Statements of Financial Position.

Summary of Quarterly Results

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

$Thousands, except per share

Three Months Ended	Mar 31	Jun 30	Sep 30	Dec 31
2016				
Revenue	**41,991**			
Net income	**18,173**			
Earnings per share (basic and diluted) ($)	**1.01**			
Funds flow from operations [1]	**25,368**			
Net cash from operating activities	**12,843**			
2015				
Revenue	46,715	22,536	22,021	21,216
Net income (loss)	4,218	(1,620)	(7,581)	(28,982)
Earnings (loss) per share (basic) ($)	0.24	(0.09)	(0.42)	(1.63)
Earnings (loss) per share (diluted) ($)	0.23	(0.09)	(0.42)	(1.63)
Funds flow from operations [1]	14,059	9,072	8,225	7,154
Net cash from operating activities	6,015	25,011	6,325	4,156
2014				
Revenue	54,342	28,365	36,556	46,011
Net income	10,150	2,081	3,854	4,994
Earnings per share (basic and diluted) ($)	0.57	0.12	0.21	0.27
Funds flow from operations [1]	17,665	10,609	10,942	16,979
Net cash from operating activities	5,127	28,789	4,641	2,065

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

Key trends over the past nine quarters, after giving consideration to the seasonal nature of AKITA's operations, are as follows:

- Activity levels, which are directly correlated to revenue, net income and funds flow from operations[1] have been on a downward trend since Q1 of 2015. This trend has continued into Q1 of 2016 with activity levels reaching historic lows;
- Operating margins per operating day[2] which influences both net income and funds flow from operations[1] had been decreasing during 2014 due to a change in the classes of rigs worked and more competitive market conditions. This trend to lower operating margins per operating day[2] accelerated throughout 2015 and into 2016; and
- Net cash from operating activities is not directly correlated to market strength on a quarterly basis. Changes to this measure are typically related to the timing of changes in various non-cash working capital accounts and fluctuate with the seasonality of the business.

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-Standard and Additional GAAP Items".

(2) Operating margin is the difference between adjusted revenue and adjusted operating & maintenance expenses.

Significant Accounting Estimates and Judgments

The preparation of the accompanying interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements as well as the reported amounts for revenue and expenses during the period. Estimates and judgments are continually evaluated and are based upon historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Actual outcomes could differ materially from these estimates.

Impairment of Assets

During the three months ended March 31, 2016, the Company conducted a detailed analysis of its asset impairment testing process and results at December 31, 2015. Management is satisfied that the estimates and judgments used in the December 31, 2015 asset impairment testing remain appropriate and that no additional internal or external indicators of asset impairment have occurred since the asset impairment test performed at that date and that no additional asset impairment is required at March 31, 2016.

Useful Lives of Drilling Rigs

The preparation of AKITA's interim financial statements requires management to make significant estimates relating to the useful lives of drilling rigs. Depreciation is calculated using a detailed approach based on major components and results in an average useful life of 3,600 operating days per rig. Drilling rigs are depreciated using the unit of production method. Assuming a 10% difference in the actual useful lives of drilling rigs compared to the accounting estimate of useful life and based upon actual drilling days achieved for the three months ended March 31, 2016, drilling rig depreciation could be either increased or decreased by $598,000 (2015 - $871,000). AKITA's depreciation expense does not have any effect on the changes to the financial condition for the Company, as depreciation is a non-cash item.

Defined Benefit Pension Liability

A significant estimate used in the preparation of AKITA's interim financial statements relates to the measurement of the defined benefit pension liability for selected employees that was recorded as $3,880,000 at March 31, 2016 (March 31, 2015 - $3,534,000). AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, as the defined benefit pension is an unfunded non-cash item. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2016, a key assumption relates to the use of a 3.9% discount rate.

Deferred Income Taxes

The Company makes assumptions relating to the measurement of deferred income taxes, including future tax rates, timing of reversals of timing differences and the anticipated tax rules that will be in place when timing differences reverse. Consequently, total liabilities of the Company as well as results of operations including net income could be either understated or overstated.

Incomplete Transactions at Period End

The Company makes assumptions relating to transactions that were incomplete at the Statement of Financial Position date. Depending on the actual transaction, total assets and liabilities of the Company, as well as results of operations including net income could be either understated or overstated as a result of differences between amounts accrued for incomplete transactions and the subsequent actual balances.

Accounting Changes Not Yet Adopted

Certain new or amended standards or interpretations have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are not required to be adopted in the current period. The Company has not early adopted these standards or interpretations. The standards which the Company anticipates may have a material effect on the consolidated financial statements or note disclosures are described below. The Company is currently evaluating the impact of these new standards on its financial statements.

IFRS 15, "Revenue from Contracts with Customers", replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively.

IFRS 9, "Financial Instruments", amends the classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively.

IFRS 16, "Leases", replaces the previous guidance on leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The new standard is effective for annual periods beginning on or after January 1, 2019, and shall be applied retrospectively.

There are no other standards and interpretations that have been issued, but are not yet effective, that the Company anticipates will have a material effect on the consolidated financial statements once adopted.

Future Outlook

The drilling industry is cyclical and certain key factors that have an impact on AKITA's results are beyond management's control. Like other drilling contractors, AKITA is exposed to the effects of fluctuating crude oil and natural gas prices as well as changes in the exploration and development budgets of its customers.

Prices for crude oil and natural gas continued to decline in the first quarter of 2016 which adversely affected capital spending by the Company's customers. Despite a slight strengthening of crude oil prices in the latter part of the first quarter, prices remain low compared to 5 year historical averages. Many of the Company's customers have indicated a desire to cancel or defer capital spending over the near-term thereby restricting opportunities available to the Company.

Management anticipates 2016 to be a challenging year for the Company and the contract drilling industry as a whole. Despite the current weak market, AKITA continues to build its financial strength by retaining cash and improving operational efficiencies. Further, the Company has no current or long-term debt. In addition, during the first quarter of 2016, the Company renewed its $100,000,000 credit facility to remain financially flexible in the current market.

AKITA continues to maintain its fleet of rigs to the Company's high standards and retain senior field staff which should allow the Company to quickly deploy rigs once opportunities arise. Management will continue to assess the carrying value of assets within the current environment for indicators of impairment.

Despite the foregoing challenges, management believes that the high efficiency modern rigs in AKITA's fleet will remain in demand and allow AKITA to remain financially strong throughout this downturn while continuing to look for growth opportunities.

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. Except as required by law, the Company does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by it or on its behalf.

Management's Responsibilty for Financial Information

As at March 31, 2016, management evaluated, under the supervision of and the participation of the President and Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), the effectiveness of the Company's disclosure controls and procedures ("DC&P") as defined under National Instrument 52-109. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P was effective as at March 31, 2016.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

As in prior quarters, AKITA's audit committee reviewed this document, including the attached interim financial statements.

Interim Statements of Financial Position

Unaudited $Thousands		March 31, 2016	March 31, 2015	December 31, 2015
Assets				
Current Assets				
Cash		$ 6,034	$ 1,354	$ 9,369
Term deposits		16,000	-	-
Accounts receivable	Note 5	16,410	38,604	14,310
Income taxes recoverable		-	1,800	3,279
Prepaid expenses and other		663	983	75
		39,107	42,741	27,033
Non-current Assets				
Long-term receivable	Note 5	9,323	-	-
Restricted cash	Note 6	5,317	9,381	5,978
Other long-term assets		989	998	917
Investment in joint ventures	Note 7	3,944	3,976	3,941
Property, plant and equipment	Note 8	210,686	274,126	216,647
Total Assets		$ 269,366	$ 331,222	$ 254,516
Liabilities				
Current Liabilities				
Operating loan facility	Note 5	$ -	$ 19,814	$ -
Accounts payable and accrued liabilities		3,958	15,925	9,506
Deferred revenue		-	127	-
Dividends payable	Note 9	1,525	1,525	1,525
Income taxes payable		2,865	-	-
		8,348	37,391	11,031
Non-current Liabilities				
Financial instruments	Note 5	96	195	117
Deferred income taxes	Note 10	19,951	27,409	19,203
Deferred share units	Note 11	178	76	171
Pension liability		3,880	3,534	3,794
Total Liabilities		32,453	68,605	34,316
Shareholder's Equity				
Class A and Class B shares	Note 12	23,871	23,871	23,871
Contributed surplus		4,011	3,640	3,946
Accumulated other comprehensive loss		(244)	(280)	(244)
Retained earnings		209,275	235,386	192,627
Total Equity		236,913	262,617	220,200
Total Liabilities and Equity		$ 269,366	$ 331,222	$ 254,516

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Statements of Net Income and Comprehensive Income

Unaudited $Thousands except per share amounts		Three Months Ended March 31 2016	2015
Revenue	Note 13	$ 41,991	$ 46,715
Costs and expenses			
Operating and maintenance		9,154	31,244
Depreciation and amortization	Note 8	6,275	9,068
Selling and administrative		3,963	4,711
Total costs and expenses		19,392	45,023
Revenue less costs and expenses		22,599	1,692
Equity income from joint ventures	Note 7	2,455	4,379
Other income (loss)			
Interest income		248	31
Interest expense		(40)	(206)
Loss on sale of assets		(27)	(190)
Net other gains (losses)		(167)	229
Total other income (loss)		14	(136)
Income before income taxes		25,068	5,935
Income taxes	Note 10	6,895	1,717
Net income for the period attributable to shareholders		18,173	4,218
Other comprehensive income		-	-
Comprehensive income for the period attributable to shareholders		$ 18,173	$ 4,218
Earnings per Class A and Class B Share	Note 14		
Basic		$ 1.01	$ 0.24
Diluted		$ 1.01	$ 0.23

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Statements of Changes in Shareholders' Equity

Unaudited
$Thousands

	Attributable to the Shareholders of the Company						
	Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity
Balance at December 31, 2014	$ 22,505	$ 1,366	$ 23,871	$ 3,557	$ (280)	$ 232,693	$ 259,841
Net income for the period	-	-	-	-	-	4,218	4,218
Stock options charged to expense	-	-	-	83	-	-	83
Dividends	-	-	-	-	-	(1,525)	(1,525)
Balance at March 31, 2015	$ 22,505	$ 1,366	$ 23,871	$ 3,640	$ (280)	$ 235,386	$ 262,617
Net loss for the period	-	-	-	-	-	(38,183)	(38,183)
Remeasurement of pension liability	-	-	-	-	36	-	36
Stock options charged to expense	-	-	-	306	-	-	306
Dividends	-	-	-	-	-	(4,576)	(4,576)
Balance at December 31, 2015	$ 22,505	$ 1,366	$ 23,871	$ 3,946	$ (244)	$ 192,627	$ 220,200
Net income the period	-	-	-	-	-	18,173	18,173
Stock options charged to expense	-	-	-	65	-	-	65
Dividends	-	-	-	-	-	(1,525)	(1,525)
Balance at March 31, 2016	$ 22,505	$ 1,366	$ 23,871	$ 4,011	$ (244)	$ 209,275	$ 236,913

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Statements of Cash Flows

Unaudited $Thousands		Three Months Ended March 31 2016	2015
Operating Activities			
Net income and comprehensive income		$ 18,173	$ 4,218
Non-cash items included in net income and comprehensive income:			
Depreciation and amortization	Note 8	6,275	9,068
Deferred income tax expense	Note 10	748	356
Defined benefit pension plan expense		94	116
Stock options and deferred share units expense	Note 11	72	69
Loss on sale of assets		27	190
Unrealized foreign currency loss		-	73
Unrealized gain on financial guarantee contracts		(21)	(31)
Funds flow from operations		25,368	14,059
Change in non-cash working capital	Note 16	(3,604)	(3,487)
Equity income from joint ventures	Note 7	(2,455)	(4,379)
Change in long-term receivable	Note 5	(9,323)	-
Pension benefits paid		(8)	(8)
Interest paid		-	(170)
Income tax expense - current	Note 10	6,147	1,361
Income taxes paid		(3,282)	(1,361)
Net cash from operating activities		12,843	6,015
Investing Activities			
Capital expenditures	Note 8	(373)	(5,017)
Change in non-cash working capital related to capital	Note 16	(1,353)	(7,267)
Net distributions from investment in joint ventures	Note 7	2,452	6,617
Change in cash restricted for joint ventures		661	-
Change in term deposits		(16,000)	-
Proceeds on sales of assets		60	705
Net cash used in investing activities		(14,553)	(4,962)
Financing Activities			
Change in operating loan facility		-	(186)
Dividends paid	Note 9	(1,525)	(1,525)
Loan committment fee paid		(100)	-
Net cash used in financing activities		(1,625)	(1,711)
Decrease in cash		(3,335)	(658)
Cash, beginning of period		9,369	2,012
Cash, End of Period		$ 6,034	$ 1,354

The accompanying notes are an integral part of these interim consolidated financial statements.

Notes to the Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the “Company” or “AKITA”) provide contract drilling services, primarily to the oil and gas industry. From time to time, the Company is involved in other forms of drilling related to potash mining and the development of storage caverns. The Company owns and operates 31 drilling rigs (28.225 net) in Canada.

The Company conducts certain rig operations via joint ventures with Aboriginal and First Nations partners whereby rig assets are jointly owned. While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis.

The contract drilling business in which the Company operates is subject to seasonal fluctuations primarily due to weather conditions affecting the ability to move rigs and other heavy equipment. Historically, rig utilization in the first quarter of the calendar year is the highest. Lower activity levels that result from warmer weather which necessitates travel bans on certain public roads characterize the second quarter while the summer drilling season begins when road bans are lifted. Activity typically builds throughout the fall and peaks during the winter months.

The Company is a limited liability company incorporated and domiciled in Alberta, Canada. The address of its registered office is 1000, 333 – 7th Avenue SW, Calgary, Alberta. The Company is listed on the Toronto Stock Exchange.

2. Basis of Preparation

The unaudited interim condensed consolidated financial statements (“interim financial statements”) for the three months ended March 31, 2016 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as applicable to interim financial reports including IAS 34, “Interim Financial Reporting”, and should be read in conjunction with the audited annual consolidated financial statements, including the notes thereof, for the year ended December 31, 2015, which have been prepared in accordance with IFRS.

Items included in the interim financial statements of each of the Company’s consolidated entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). These interim financial statements are presented in Canadian dollars.

The accounting policies applied in these interim financial statements are based on IFRS issued and effective as of April 27, 2016, the date that the Company’s Audit Committee of the Board of Directors approved the interim financial statements.

3. Significant Accounting Policies

The accounting policies adopted are consistent with those reported in the Company’s 2015 Annual Report.

4. Significant Accounting Estimates and Judgments

The preparation of these interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements as well as the reported amounts for revenue and expenses during the period. Estimates and judgments are continually evaluated and are based upon historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Actual outcomes could differ materially from these estimates.

Impairment of Assets

During the quarter ended March 31, 2016, the Company conducted a detailed analysis of its asset impairment testing process and results at December 31, 2015. Management is satisfied that the estimates and judgments used in the December 31, 2015 asset impairment testing remain accurate and that no additional internal or external indicators of asset impairment have occurred since the asset impairment test performed at that date and that no additional asset impairment is required at March 31, 2016.

Useful Lives of Drilling Rigs

The preparation of AKITA's interim financial statements requires management to make significant estimates relating to the useful lives of drilling rigs. Depreciation is calculated using a detailed approach based on major components and results in an average useful life of 3,600 operating days per rig. Drilling rigs are depreciated using the unit of production method. Assuming a 10% difference in the actual useful lives of drilling rigs compared to the accounting estimate of useful life and based upon actual drilling days achieved for the three months ended March 31, 2016, drilling rig depreciation could be either increased or decreased by $598,000 (March 31, 2015 - $871,000). AKITA's depreciation expense does not have any effect on the changes to the financial condition for the Company, as depreciation is a non-cash item.

Defined Benefit Pension Liability

A significant estimate used in the preparation of AKITA's interim financial statements relates to the measurement of the defined benefit pension liability for selected employees that was recorded as $3,880,000 at March 31, 2016 (December 31, 2015 - $3,794,000 and March 31, 2015 - $3,534,000). AKITA's pension liability estimates do not have any effect on the changes to the financial condition for the Company, as the defined benefit pension is an unfunded non-cash liability. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2016, a key assumption relates to the use of a 3.9% discount rate. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the recording of the Company's defined benefit pension liability.

Deferred Income Taxes

The Company makes assumptions relating to the measurement of deferred income taxes, including future tax rates, timing of reversals of timing differences and the anticipated tax rules that will be in place when timing differences reverse. Consequently, total liabilities of the Company as well as results of operations including net income could be either understated or overstated.

Incomplete Transactions at Period End

The Company makes assumptions relating to transactions that were incomplete at the Statement of Financial Position date. Depending on the actual transaction, total assets and liabilities of the Company as well as

results of operations including net income could be either understated or overstated as a result of differences between amounts accrued for incomplete transactions and the subsequent actual balances.

5. Financial Instruments

Operating Loan Facility

The Company has an operating loan facility with its principal banker. The facility totals $100,000,000 with the term ending in 2020.

The interest rate on the facility varies based upon the actual amounts borrowed, but ranges from 0.45% to 1.45% over prime interest rates or 1.45% to 2.45% over guaranteed notes, depending on the preference of the Company. Security for this facility includes a General Security Agreement covering all current and future assets.

At March 31, 2016, the Company had repaid all funds drawn on its loan facility (December 31, 2015 - repaid all funds and March 31, 2015 - drawn $19,814,000).

The Company is in compliance with its operating loan facility covenants.

Contracts Measured at Fair Value

Forward exchange contracts
From time to time, the Company enters into forward exchange contracts as a risk management strategy. Forward exchange contracts are included in current assets/liabilities except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets/liabilities. The Company does not designate any of its forward exchange contracts as effective accounting hedges and, accordingly, fair values its forward exchange contracts with the resulting gains and losses recorded in the Consolidated Statement of Net Income and Comprehensive Income.

The fair value of the forward exchange contracts is determined by calculating the difference between the contracted foreign exchange rates and the foreign exchange forward rates at the period end date using the contracted amounts. The fair value measurement of the forward exchange contracts has a fair value hierarchy of Level 2 whereby fair value was based on a valuation model that utilized direct observable market data.

The Company did not have any forward exchange contracts outstanding at March 31, 2016 (December 31, 2015 - $nil and March 31, 2015 – $nil).

Financial guarantee contracts
The Company guarantees bank loans made to joint venture partners and has provided an assignment of monies on deposit with respect to these loans. The Company has recorded the loan guarantee benefit at its fair value of $96,000 (December 31, 2015 - $117,000 and March 31, 2015 - $195,000). The fair value measurement of the financial guarantee benefit has a fair value hierarchy of Level 2 whereby fair value was based on a valuation model that utilized indirect observable market data.

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, liquidity risk and commodity risk. In addition, the Company is exposed to

interest rate risk through its operating loan facility and through its investment in bank guaranteed highly liquid investments.

Credit Risk

The credit risk associated with accounts receivable is generally considered low since substantially all counterparties are well-financed and established oil and gas companies. The Company has detailed credit-granting procedures and in certain circumstances may require customers to make advance payment prior to the provision of services or take other measures to help reduce credit risk. Management has estimated provisions to recognize potential impairments, which have been included in the accounts.

In the first quarter of 2016, one of AKITA's customers elected to cancel a multi-year contract that was scheduled to continue to 2019. As a result of the cancellation, AKITA received $9,578,000 in contract cancellation fees during the first quarter of 2016. The remaining contract cancellation fees have been recorded as accounts receivable ($9,520,000) and long-term receivable ($9,323,000).

The terms of the Company's contracts generally require payment within 30 days. The Company's accounts receivable shows no significant credit risk exposure in the balances outstanding at:

$Thousands	March 31, 2016	March 31, 2015	December 31, 2015
Within 30 days	$ 4,677	$ 24,598	$ 11,560
31 to 60 days	1,998	9,591	2,411
61 to 90 days	268	1,460	402
Over 90 days	-	3,058	(13)
Allowance for doubtful accounts	(53)	(103)	(50)
	6,890	38,604	14,310
Current portion of contract cancellaton fees	9,520	-	-
Accounts receivable	$ 16,410	$ 38,604	$ 14,310

Foreign Currency Risk

The Company is exposed to changes in foreign exchange rates as capital expenditures or financial instruments may fluctuate due to changing rates.

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At March 31, 2016, this risk was limited by having strong cash flows from operations and cash and term deposits sufficient to meet all current liabilities.

Commodity Risk

The Company is indirectly exposed to commodity risk relating to commodity prices due to the industry in which it works.

6. Restricted Cash

$Thousands	March 31, 2016	March 31, 2015	December 31, 2015
Balance held in bank liquid deposit instruments	$ 5,317	$ 9,381	$ 5,978

During the third quarter of 2013, the Company guaranteed bank loans made to joint venture partners totaling $2,812,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $1,298,000 with respect to these loans.

During 2014, the Company guaranteed bank loans made to joint venture partners totaling $5,648,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $4,019,000 with respect to these loans.

The Company's security from its partners for these guarantees includes interests in specific rig assets. The Company has recorded the loan guarantee benefit at its fair value.

7. Investments in Joint Ventures

Joint Venture Interests

The Company conducts certain rig operations via joint ventures with Aboriginal and First Nations partners whereby rig assets are jointly owned. Currently there are 22 different Aboriginal and First Nations groups with equity investment in ten of AKITA's rigs. These equity investments are facilitated through joint venture agreements. Each joint venture operates the rig with the joint venture partners owning a share of each rig directly. The equity ownership of the rigs for each Aboriginal or First Nations partner varies between rigs and groups and ranges from 5% to 50% per group per rig.

While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis. The Company accounts for the joint venture interests using the equity method. The following table lists the Company's active joint ventures.

Active Joint Ventures during the Period	Operating Location	AKITA Ownership Interest
Akita Wood Buffalo Joint Venture 22	Canada	85%
Akita Wood Buffalo Joint Venture 25	Canada	85%
Akita Wood Buffalo Joint Venture 26	Canada	85%
Akita Wood Buffalo Joint Venture 27	Canada	85%
Akita Wood Buffalo Joint Venture 28	Canada	70%
Akita Wood Buffalo Joint Venture 33	Canada	62.5%
Akita Sahtu Joint Venture 51	Canada	50%
Akita Equtak Joint Venture 60	Canada	50%
Akita Equtak Joint Venture 61	Canada	50%
Akita Equtak Joint Venture 63	Canada	50%

Continuity of Investment in Joint Ventures

$Thousands	Investment in Joint Ventures
Balance as at December 31, 2014	$ 6,214
Net income for the three month period ended March 31, 2015	4,379
Distributions for the three month period ended March 31, 2015	(6,617)
Balance as at March 31, 2015	3,976
Net income for the nine month period ended December 31, 2015	6,885
Distributions for the nine month period ended December 31, 2015	(6,920)
Balance as at December 31, 2015	3,941
Net income for the three month period ended March 31, 2016	**2,455**
Distributions for the three month period ended March 31, 2016	**(2,452)**
Balance as at March 31, 2016	**$ 3,944**

Summarized Joint Venture Financial Information

This summarized financial information is the aggregate of the amounts included in the IFRS financial statements of the joint ventures which include both the Company's and Joint Venture partners' interests.

	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
$Thousands	**March 31, 2016**	**March 31, 2016**	**March 31, 2016**	**March 31, 2015**	**March 31, 2015**	**March 31, 2015**
Cash	**$ 1,302**	**$ 545**	**$ 1,847**	$ 3,833	$ 1,507	$ 5,340
Other current assets	**4,168**	**784**	**4,952**	6,418	2,805	9,223
Non-current assets	**55**	**-**	**55**	55	-	55
Total Assets	**5,525**	**1,329**	**6,854**	10,306	4,312	14,618
Current liabilities	**1,581**	**320**	**1,901**	6,039	2,241	8,280
Non-current liabilities	**-**	**-**	**-**	291	52	343
Total Liabilities	**1,581**	**320**	**1,901**	6,330	2,293	8,623
Net Assets	**$ 3,944**	**$ 1,009**	**$ 4,953**	$ 3,976	$ 2,019	$ 5,995

	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
	Three Months Ended			Three Months Ended		
$Thousands	**March 31, 2016**	**March 31, 2016**	**March 31, 2016**	**March 31, 2015**	**March 31, 2015**	**March 31, 2015**
Revenue	**$ 5,671**	**$ 1,239**	**$ 6,910**	$ 12,878	$ 5,023	$ 17,901
Net income and comprehensive income	**$ 2,455**	**$ 516**	**$ 2,971**	$ 4,379	$ 1,618	$ 5,997

8. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2014	$ 4,302	$ 458,157	$ 8,937	$ 471,396
Additions	-	4,939	78	5,017
Disposals	-	(930)	(130)	(1,060)
Balance as at March 31, 2015	4,302	462,166	8,885	475,353
Additions	-	12,762	181	12,943
Disposals	-	(9,071)	(752)	(9,823)
Impairment loss	-	(59,795)	-	(59,795)
Balance as at December 31, 2015	4,302	406,062	8,314	418,678
Additions	**-**	**373**	**-**	**373**
Disposals	**-**	**(7,638)**	**(225)**	**(7,863)**
Balance as at March 31, 2016	**$ 4,302**	**$ 398,797**	**$ 8,089**	**$ 411,188**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2014	$ 1,191	$ 185,134	$ 6,026	$ 192,351
Disposals	-	(34)	(130)	(164)
Depreciation expense	21	8,710	309	9,040
Balance as at March 31, 2015	1,212	193,810	6,205	201,227
Disposals	-	(8,216)	(752)	(8,968)
Depreciation expense	61	26,679	859	27,599
Impairment loss	-	(17,827)	-	(17,827)
Balance as at December 31, 2015	1,273	194,446	6,312	202,031
Disposals	**-**	**(7,550)**	**(225)**	**(7,775)**
Depreciation expense	**19**	**5,984**	**243**	**6,246**
Balance as at March 31, 2016	**$ 1,292**	**$ 192,880**	**$ 6,330**	**$ 200,502**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
As at December 31, 2014	$ 3,111	$ 273,023	$ 2,911	$ 279,045
As at March 31, 2015	$ 3,090	$ 268,356	$ 2,680	$ 274,126
As at December 31, 2015	$ 3,029	$ 211,616	$ 2,002	$ 216,647
As at March 31, 2016	**$ 3,010**	**$ 205,917**	**$ 1,759**	**$ 210,686**

The Company had $215,000 in Property, Plant and Equipment that was not being depreciated as these assets were under construction as at March 31, 2016 (March 31, 2015 - $17,435,000 and December 31, 2015 – $106,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $29,000 for the three month period ended March 31, 2016 (March 31, 2015- $28,000).

9. Dividends

The following table provides a history of dividends for 2015 and 2016 to date:

Declaration Date	Payment Date	Per Share $	Total ($000's)
March, 2015	April, 2015	0.085	1,525
May, 2015	July, 2015	0.085	1,525
July, 2015	October, 2015	0.085	1,525
November, 2015	January, 2016	0.085	1,525
March, 2016	**April, 2016**	**0.085**	**1,525**

10. Income Taxes

Income tax expense is comprised of the following:

	Three Months Ended	
$Thousands	**March 31, 2016**	March 31, 2015
Current tax expense	**$ 6,147**	$ 1,361
Deferred tax expense	**748**	356
Income tax expense	**$ 6,895**	$ 1,717

The following table reconciles the income tax expense using a weighted average Canadian federal and provincial tax rate of 26.93% (2015 – 25.63%) to the reported tax expense. The rate increase is due to the Alberta provincial corporate income tax rate increase from 10% to 12% in 2015. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements.

	Three Months Ended	
$Thousands	**March 31, 2016**	March 31, 2015
Income before income taxes	**$ 25,068**	$ 5,935
Expected income tax at statutory rate	**6,755**	1,521
Add (deduct):		
Change in future income tax rates	**138**	246
Permanent differences	**33**	11
Other	**(31)**	(61)
Income tax expense	**$ 6,895**	$ 1,717

Deferred income taxes are the result of temporary differences between the carrying amounts of certain assets and liabilities in the financial statements and their tax bases. No portion of deferred income taxes is expected to be recovered within 12 months.

Deferred Income Taxes $Thousands	Property, plant and equipment	Employee pension benefits	Other	Total
Balance as at December 31, 2014	$ 27,353	$ (870)	$ 570	$ 27,053
Charged/(credited) to the statement of net income	452	(36)	(60)	356
Balance as at March 31, 2015	27,805	(906)	510	27,409
Charged/(credited) to the statement of net income	(8,105)	(137)	23	(8,219)
Charged to other comprehensive income	-	13	-	13
Balance as at December 31, 2015	19,700	(1,030)	533	19,203
Charged/(credited) to the statement of net income	**840**	**(35)**	**(57)**	**748**
Balance as at March 31, 2016	**$ 20,540**	**$ (1,065)**	**$ 476**	**$ 19,951**

11. Stock-based Compensation Plans

(a) Stock Options

The following table summarizes stock options reserved, granted and available for future issuance:

(number of options)	March 31, 2016	March 31, 2015	December 31, 2015
Reserved under current stock option plan	**1,700,000**	1,700,000	1,700,000
Balance at beginning of year	**333,500**	438,500	438,500
Granted during the period	**-**	-	(105,000)
Available for future issuance at end of period	**333,500**	438,500	333,500

A summary of the status of the Company's stock-based compensation plans as of March 31, 2016 and March 31, 2015, and changes during the periods ended on those dates are presented below:

	2016		2015	
	Options	**Weighted Average Exercise Price ($)**	Options	Weighted Average Exercise Price ($)
Options outstanding at January 1	**682,000**	**11.90**	577,000	12.20
Options outstanding at March 31	**682,000**	**11.90**	577,000	12.20
Options granted			105,000	10.28
Options outstanding at December 31			682,000	11.90
Options exercisable at March 31	**479,000**	**11.35**	392,000	11.00
Options exercisable at December 31			459,500	11.38

The following table summarizes outstanding stock options at March 31:

		2016			2015		
Vesting Period (Years)	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
5	9.87	150,000	4.0	150,000	150,000	5.0	150,000
3	10.32	6,000	5.0	6,000	6,000	6.0	6,000
5	10.32	91,000	5.0	91,000	91,000	6.0	91,000
5	10.86	97,500	6.0	97,500	97,500	7.0	78,000
5	13.81	102,500	7.5	61,500	102,500	8.5	41,000
5	16.02	130,000	8.4	52,000	130,000	9.4	26,000
5	10.28	105,000	9.0	21,000			

(b) Deferred Share Units

A summary of the status of the Company's deferred share unit plan as of March 31, 2016, March 31, 2015, and December 31, 2015, and changes during the periods ended on those dates is presented below:

	2016		2015	
	Deferred Share Units (number)	Fair Value ($Thousands)	Deferred Share Units (number)	Fair Value ($Thousands)
Deferred share units outstanding at January 1	31,083	$ 211	7,309	$ 91
Issued in lieu of dividends	389	2	50	1
Change in fair value during the period	-	5	-	(16)
Deferred share units outstanding at March 31	31,472	$ 218	7,359	$ 76
Granted during the period			23,077	240
Issued in lieu of dividends			647	5
Change in fair market value during the period			-	(110)
Deferred share units outstanding at December 31			31,083	$ 211
Deferred share units allocated to:				
Accounts payable and accrued liabilities	6,060	$ 40	-	$ -
Non-current liabilities	25,412	178	7,359	76
Deferred share units outstanding at March 31	31,472	$ 218	7,359	$ 76

(c) Share-based Compensation Expense (Recovery)

	Three Months Ended	
$Thousands	March 31, 2016	March 31, 2015
Stock option expense	$ 65	$ 83
Deferred share unit expense (recovery)	7	(14)
Total	$ 72	$ 69

The Company did not issue any stock options in the first quarter of 2016 or 2015.

(d) Share Appreciation Rights

The Company did not have any outstanding Share Appreciation Rights during either 2016 to date or 2015; therefore no corresponding liability is recorded on the Statement of Financial Position.

12. Share Capital

Authorized:

- An unlimited number of Series Preferred shares, issuable in series, designated as First Preferred Shares, no par value
- An unlimited number of Series Preferred shares, issuable in series, designated as Second Preferred Shares, no par value
- An unlimited number of Class A Non-Voting shares, no par value
- An unlimited number of Class B Common shares, no par value

Issued:

- All issued shares are fully paid

Number of Shares	Class A Non-Voting	Class B Common	Total
Shares outstanding at March 31, 2015	16,291,877	1,653,784	17,945,661
Shares outstanding at December 31, 2015	16,291,877	1,653,784	17,945,661
Shares outstanding at March 31, 2016	**16,291,877**	**1,653,784**	**17,945,661**

Each Class B Common Share may be converted into one Class A Non-Voting Share at the holder's option.

In the event that an offer to purchase Class B Common shares is made to all or substantially all holders of Class B Common Shares while at the same time an offer to purchase Class A Non-Voting Shares on the same terms and conditions is not made to the holders of Class A Non-Voting Shares, and holders of more than 50 % of the Class B Common Shares do not reject the offer in accordance with the terms of AKITA's articles of incorporation, then the holders of Class A Non-Voting Shares will be entitled to exchange each Class A Non-Voting Share for one Class B Common Share for the purpose of depositing the resulting Class B Common Share pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

The Estate of Mr. Ronald D. Southern owns 1,428,790 Class B Common Shares, which at March 31, 2016 represented 86.4% of the Class B Common Shares. The Estate of Mr. Southern is also the controlling share owner of Sentgraf Enterprises Ltd., ("Sentgraf"). Sentgraf owns 4,506,277 Class A Non-Voting Shares of the Company, which at March 31, 2016 represented 27.6 % of the Class A Non-Voting Shares outstanding. Collectively, these shareholdings represented 33.0% of the total outstanding equity ownership in the Company at such date.

The Company has not established a normal course issuer bid during 2016 to date or during 2015.

13. Revenue

Revenue is comprised of the following:

	Three Months Ended	
$Thousands	**March 31, 2016**	March 31, 2015
Contract drilling services	**$ 13,741**	$ 46,715
Contract cancellation fees	**28,250**	-
Total	**$ 41,991**	$ 46,715

14. Net Income per Share

$Thousands	Three Months Ended	
	March 31, 2016	March 31, 2015
Net income	**$ 18,173**	$ 4,218
Weighted average outstanding shares	**17,945,661**	17,945,661
Incremental shares for diluted earnings per share calculation	**-**	12,782
Weighted average outstanding shares for diluted earnings per share	**17,945,661**	17,958,443
Basic earnings per share ($)	**$ 1.01**	$ 0.24
Diluted earnings per share ($)	**$ 1.01**	$ 0.23

15. Related Party Transactions

All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the amounts agreed upon with the related parties.

The Company is related to its joint ventures. The accompanying table summarizes the joint ventures' transactions and period balances with AKITA.

$Thousands	Three Months Ended		Year Ended
	March 31, 2016	March 31, 2015	December 31, 2015
Revenue	**$ 26**	$ 30	$ 30
Operating costs	**725**	2,026	4,866
Selling and administrative costs	**95**	216	553
Period end accounts payable	**1,335**	4,709	1,872

16. Changes in Non-Cash Working Capital

$Thousands	Three Months Ended	
	March 31, 2016	March 31, 2015
Change in non-cash working capital:		
Accounts receivable	**$ (2,100)**	$ 1,377
Income tax recoverable	**3,279**	1,211
Prepaid expenses and other	**(588)**	(799)
Accounts payable and accrued liabilities	**(5,548)**	(12,495)
Deferred revenue	**-**	(48)
	$ (4,957)	$ (10,754)
Pertaining to:		
Operations	**$ (3,604)**	$ (3,487)
Investing	**(1,353)**	(7,267)
	$ (4,957)	$ (10,754)

17. Segmented Information

The Company operates in one business segment that provides contract drilling services, primarily to the oil and gas industry. From time to time, the Company is involved in other forms of drilling relating to potash mining and the development of storage caverns. Segment information, when appropriate to disclose separately, is provided on the basis of geographic segments as the Company manages its business through two geographic regions – Canada and the United States. During the first quarter of 2016 and 2015 the Company operated only in Canada.

18. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At March 31, 2016, the Company had two joint venture rigs with multi-year contracts. Of these contracts, one is anticipated to expire in 2017 and a second in 2018.

The Company has entered into two contracts with a related party to provide sponsorship and advertising at an annual cost of $325,000.

The Company leases its office space at an annual cost of approximately $810,000 per year. This lease expires on December 31, 2019.

At March 31, 2016, the Company had capital expenditure commitments of $1,173,000 (March 31, 2015 - $5,207,000 and December 31, 2015 – $1,001,000).

19. Accounting Changes Not Yet Adopted

Certain new or amended standards or interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee that are not required to be adopted in the current period. The Company has not early adopted these standards or interpretations. The standards which the Company anticipates may have a material effect on the consolidated financial statements or note disclosures are described below. The Company is currently evaluating the impact of these new standards on its financial statements.

IFRS 9, “Financial Instruments”, amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively.

IFRS 15, “Revenue from Contracts with Customers”, replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively.

IFRS 16, “Leases”, replaces the previous guidance on leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The new standard is effective for annual periods beginning on or after January 1, 2019, and shall be applied retrospectively.

There are no other standards and interpretations that have been issued, but are not yet effective, that the Company anticipates will have a material effect on the consolidated financial statements once adopted.

Committed to Our Customers

AKITA's longstanding strength lies in our ability to bring superior service to discerning customers across North America.

We are committed to offering our customers:

Courteous, professional service from initial contact to project completion;

Safe, well trained employees focused on meeting your drilling needs;

The newest and most innovative drilling equipment in Canada;

Access to a broad range of self-moving pad rigs and conventional rigs in all depth ranges;

Opportunities to work collaboratively to obtain the services of a new, custom designed drilling rig to meet your specific drilling requirements.

Corporate Information

Directors

Loraine M. Charlton
Corporate Director,
Calgary, Alberta

Arthur C. Eastly
Corporate Director,
Calgary, Alberta

Linda A. Southern-Heathcott
President and Chief Executive Officer, Spruce Meadows Ltd.,
President, Team Spruce Meadows Inc.
Chairman of the Board,
AKITA Drilling Ltd.,
Calgary, Alberta

Harish K. Mohan
Corporate Director,
Calgary, Alberta

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

Karl A. Ruud
President and Chief Executive Officer, AKITA Drilling Ltd.,
Calgary, Alberta

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

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

Henry G. Wilmot
Corporate Director,
Calgary, Alberta

Charles W. Wilson
Corporate Director,
Evergreen, Colorado

Officers

Raymond T. Coleman
Senior Vice President

Colin A. Dease
Corporate Secretary

Fred O. Hensel
Vice President, Marketing

Craig W. Kushner
Director of Human Resources

Darcy Reynolds
Vice President, Finance

Murray J. Roth
Chief Financial Officer

Karl A. Ruud
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Banker

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Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

CST Trust Company
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1.800.387.0825

Share Symbol / TSX

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

Website

www.akita-drilling.com