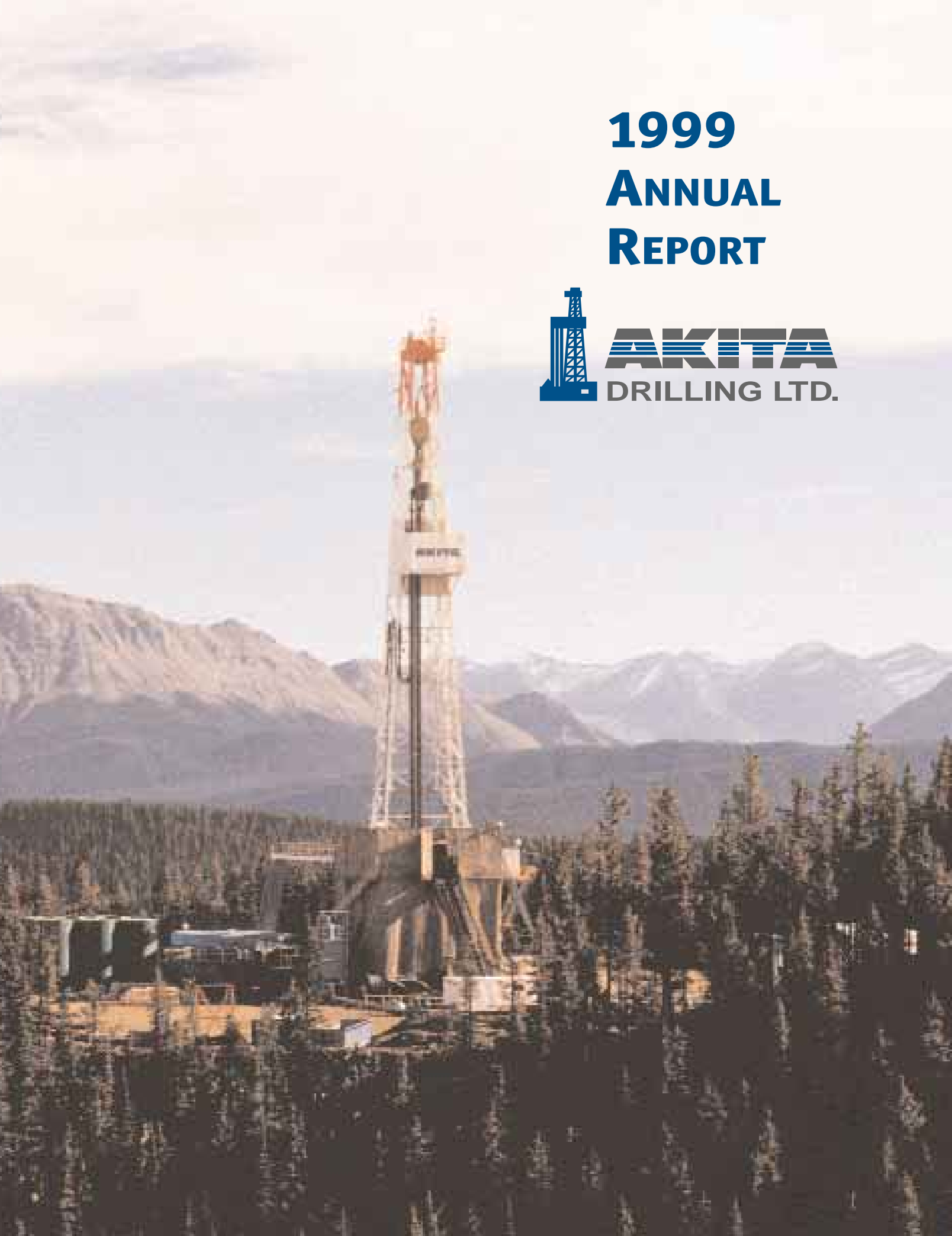


1999 ANNUAL REPORT



AKITA
DRILLING LTD.



COVER:

AKITA drilling for deep natural gas in the Alberta foothills.

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ANNUAL MEETING:

The Annual General Meeting of Shareholders will be held at 11:00 a.m. M.D.T. on Thursday, May 11, 2000 at the Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

CORPORATE PROFILE

AKITA Drilling Ltd. is a premium oil and gas drilling contractor with operations throughout Western Canada and the northern territories. The Company's objective is to be the industry leader in matters of equipment quality, safe and efficient drilling performance by top quality personnel and overall customer satisfaction. In addition to conventional drilling services, the Company is active in directional, horizontal and underbalanced drilling and provides specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA employs at full operations approximately 600 people operating 30 drilling rigs in all depth ranges.



Crews on Rig 51 from Fort Good Hope working in the Sahtu Region of the Northwest Territories.

AKITA

1999 OPERATIONAL PERFORMANCE

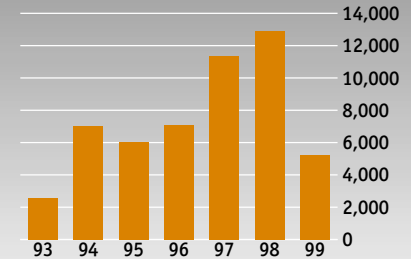
Lower utilization coupled with weak day rates resulted in AKITA's drop in profitability for 1999. By fourth quarter, demand started to improve in response to higher commodity prices.

Weaker market conditions had a corresponding impact on cash flow from operations. For the second time in three years, AKITA invested more than 100% of cash flow on capital expenditures and payments to shareholders.

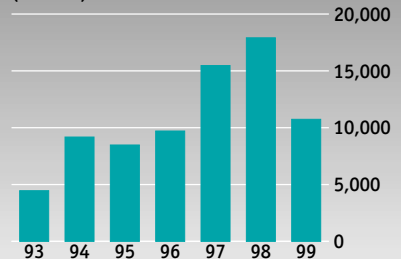
AKITA maintains a very strong balance sheet. Even with an active share repurchase program and increased dividend payments, the 1999 closing "per share" Equity balance was the largest in the Company's history.

AKITA has consistently and significantly outperformed industry with respect to safety. For the sixth time in seven years, AKITA's lost time accident frequency was less than one half of the industry average.

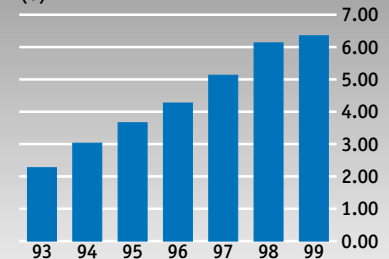
NET EARNINGS
(\$ 000's)



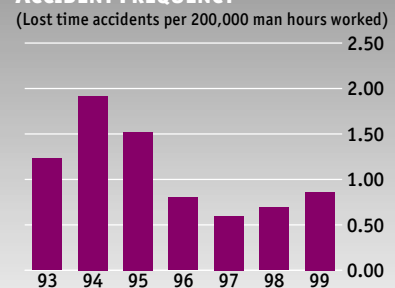
CASH FLOW
(\$ 000's)



EQUITY PER SHARE
(\$)



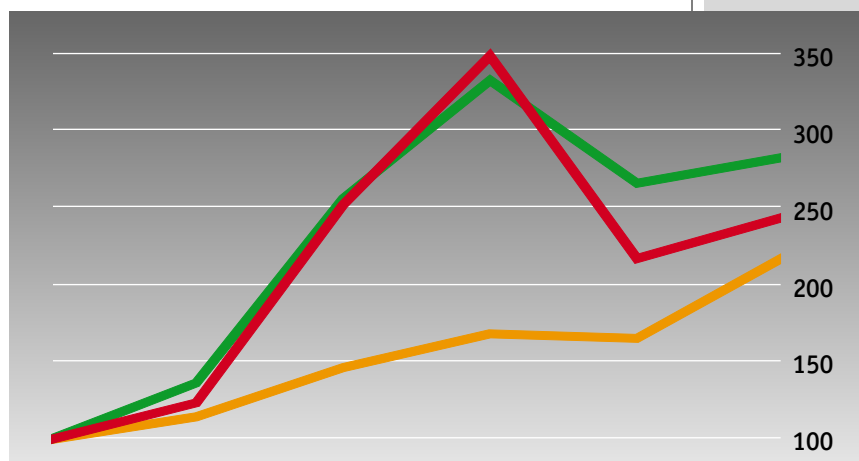
**LOST TIME
ACCIDENT FREQUENCY**
(Lost time accidents per 200,000 man hours worked)



SHARE PERFORMANCE

FIVE-YEAR TOTAL RETURN ON \$100 INVESTMENT

The graph to the right compares the cumulative return over the last five years on the Class A Non-Voting Shares and Class B Common Shares of the Company on December 31, 1994 with the cumulative total return of the TSE 300 Stock Index over the same period, assuming reinvestment of dividends.



	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999
— AKITA Class A	100	124	253	350	218	245
— AKITA Class B	100	137	257	334	267	284
— TSE 300	100	115	147	169	166	219

SHARE PERFORMANCE

		1995	1996	1997	1998	1999
Weighted average number of Class A and Class B Shares		9,120,005	9,231,205	9,497,563	9,499,521	9,318,173
Market prices for Class A Shares	High	\$ 4.70	\$ 11.00	\$ 16.35	\$ 12.80	\$ 11.45
	Low	\$ 2.30	\$ 4.60	\$ 8.60	\$ 5.60	\$ 6.10
	Close	\$ 4.70	\$ 9.50	\$ 12.90	\$ 7.85	\$ 8.55
Volume		5,044,479	9,833,974	8,552,552	5,329,046	2,987,533
Market prices for Class B Shares	High	\$ 4.85	\$ 9.80	\$ 16.30	\$ 10.80	\$ 10.00
	Low	\$ 2.60	\$ 5.00	\$ 9.50	\$ 9.00	\$ 7.00
	Close	\$ 4.85	\$ 9.00	\$ 11.50	\$ 9.00	\$ 9.25
Volume		69,585	39,746	22,584	7,254	2,872

DIVIDEND HISTORY

AKITA began paying dividends to shareholders in 1996. It is the current intention of the Board of Directors to continue to pay quarterly dividends in the future. Nevertheless, the payment of any dividend is at the discretion of the Board of Directors and depends upon the financial condition of the Company and other factors.

	1995	1996	1997	1998	1999
Dividends paid per share (\$)	Nil	0.10	0.20	0.24	0.28

LETTER TO THE SHARE OWNERS



*Ronald D. Southern
Chairman of the Board*

*John B. Hlavka
President*

Earnings for the year ended December 31, 1999 were \$5,211,000 or \$0.56 per share on revenue of \$61,316,000. Comparative figures for 1998 were \$12,907,000 or \$1.36 per share on revenue of \$75,463,000. Cash flow from operations for the current year was \$10,741,000 or \$1.15 per share as compared to \$17,914,000 or \$1.89 per share in 1998. Results for the previous year include the receipt of a nonrecurring \$3,655,000 dividend. AKITA's financial position continued to be strong with the cash balance exceeding \$20 Million at year-end.

A weak drilling market persisted through most of the year. The most significant reason was the low oil prices in the beginning of the year. The dramatic rise in oil prices that began in the second quarter started to have some impact on AKITA by the fourth quarter.

During 1999, AKITA achieved utilization of 49.9% compared to the industry average of 39.7%. Market conditions began to improve by the winter of 1999/2000, allowing the Company an opportunity to increase day rates with a resulting improvement to profit margins. AKITA is well positioned with experienced staff to ensure each rig has well trained and committed crews in this very active market. Share owners can take pride in knowing that AKITA has some of the most experienced and dedicated employees in the industry.

In April, AKITA was awarded the 1998 Canadian Association of Oilwell Drilling Contractors Class A Safety Award of Excellence. This honour is awarded to the drilling contractor achieving the highest standard in safety performance during the year. 1999 represented the fourth year in a row that AKITA's lost time accident frequency was less than 1.0, rising to 0.86 from the award winning level of 0.69 in 1998. Of greater importance than this one statistic however, is that AKITA has been able to make long term improvements to its safety performance. AKITA's commitment to safety is demonstrated by performance that has consistently been significantly better than industry average.

A new frontier with a fresh set of opportunities is beginning to unfold for our industry in Canada's North. AKITA has developed a strategy to become a key part of this opportunity. This plan includes, among other things, the development of business partnerships with key First Nations' peoples through our joint

ventures: AKITA/EQUTAK, AKITA/SAHCHO and AKITA/SAHTU. We look forward to long and mutually beneficial relationships. During the year, AKITA had five rigs working on joint venture projects.

During two of the last three years, AKITA had targeted spending a minimum of 100% of annual cash flow from operations on capital expenditures and payments to share owners. AKITA's continuing strong cash position provides the Company with the flexibility to evaluate a broad range of alternatives to enhance share owner value. Your Management and Board continue to actively consider appropriate investment opportunities.

In November 1999, the AKITA Board of Directors approved the payment of an increased quarterly dividend to \$0.08 per share. This represents an increase of 14% calculated on an annualized basis. During the year, AKITA has made direct contributions to enhance share value through purchases pursuant to its Normal Course Issuer Bid. In 1999, the Company repurchased 342,800 Class A Non-Voting shares (4% of the class) at an average price of \$8.79 per share.

Despite the improvement in oil prices, capital markets remain constrained for oil and gas producers. The benefit of higher commodity prices will not be fully realized in the oilfield service sector in the short term unless external capital becomes more widely available to producers. Nevertheless, continuing strong oil prices coupled with increasing demand for natural gas should provide the key fundamentals for a rewarding year in 2000. AKITA is currently employing strategies to capitalize on changing market conditions and, with the benefit of a strong balance sheet, has ample resources to seize new market opportunities.

We thank our customers and suppliers for their continuing confidence and support. AKITA is committed to providing drilling services and solutions that help them to achieve and maintain a competitive advantage in a dynamic business sector. As well, we would like to take this opportunity to thank our share owners for their ongoing support and to acknowledge the efforts of our employees, especially their adaptability to changing conditions. Finally, we wish to express our appreciation to each of our directors for their astute counsel and thoughtful guidance.

On behalf of the Board of Directors,

Signed

Ronald D. Southern
Chairman of the Board

Signed

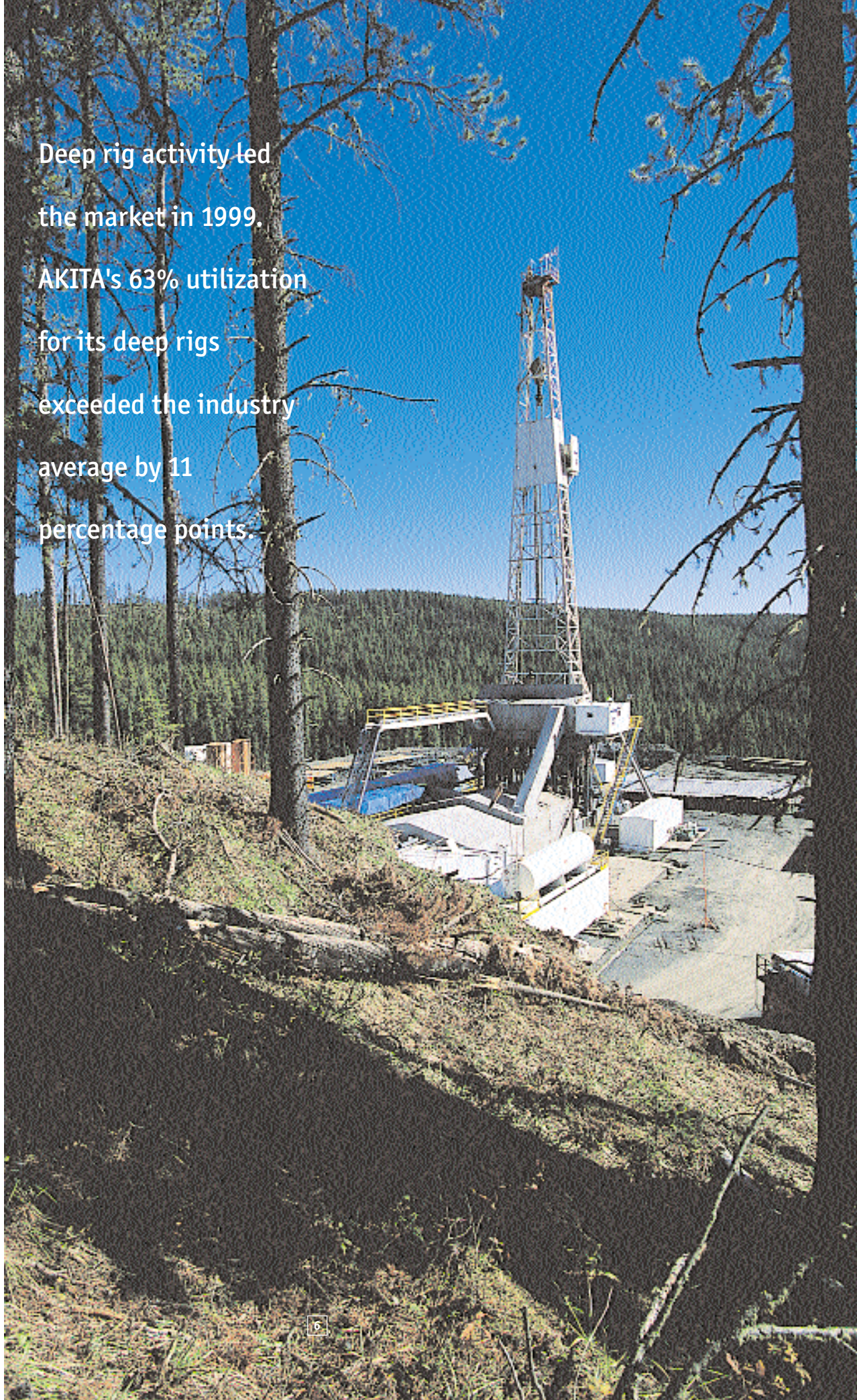
John B. Hlavka
President



Deep rig activity led
the market in 1999.

AKITA's 63% utilization
for its deep rigs
exceeded the industry
average by 11
percentage points.

AKITA



OPERATIONS REVIEW

WEAK START, STRONGER FINISH

Weak market conditions characterized the first nine months of 1999. For the period from January to March, oil prices were at the lowest levels in several years. However, even after a dramatic surge in the price of crude, AKITA felt a marginal benefit during the next two quarters. An important underlying reason for this was that during most of 1999, oil and gas producers had limited access to external sources of finance. Consequently, AKITA's customers relied predominantly on their ability to finance operations based upon cash flow.

Nevertheless, by the fourth quarter, the impact of strong commodity prices started to positively impact drilling activity for the industry and resulted in improvements in both utilization and profit margins for AKITA.

The following table highlights AKITA's utilization rate for the past five years:

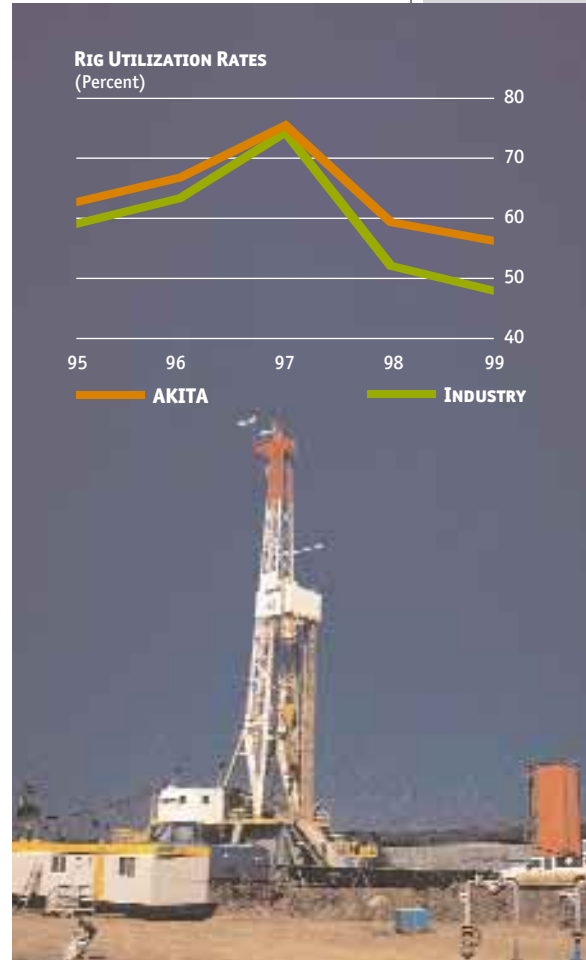
RIG UTILIZATION RATES (PERCENT)

	1999	1998	1997	1996	1995
AKITA	49.9	53.8	73.5	62.9	57.8
Industry	39.7	44.9	72.1	58.7	53.4
Difference	10.2	8.9	1.4	4.2	4.4

AKITA drilled 1,072 wells for a total of 956,000 metres or approximately 10.1% percent of the total wells drilled in Western Canada in 1999.

ONGOING COMMITMENT TO THE DRILLING FLEET

AKITA operates a well-maintained, diversified and efficient fleet of 30 drilling rigs within the Western Canadian Sedimentary Basin and in Canada's northern territories. Most of AKITA's 1999 drilling activity was related to exploration and development for natural gas. The Company's large percentage of both shallow and deep capacity equipment assures particularly favourable exposure to deep gas drilling which occurs in the foothills and



some mountain regions of Alberta, British Columbia, Northwest and Yukon Territories, as well as shallow gas drilling which is typical of Southern Alberta and Saskatchewan. AKITA's rig mix ensures that it is able to participate effectively in changing markets. The following table compares the range of drilling capabilities for the Company's fleet to the industry:

DRILLING DEPTH CAPABILITY

Depth Capacity	AKITA		INDUSTRY	
	No. of Rigs	% of Fleet	No. of Rigs	% of Fleet
0 to 950 metres	7	23%	16	3%
951 to 1,850 metres	5	17%	141	23%
1,851 to 2,450 metres	6	20%	172	28%
2,451 to 3,050 metres	6	20%	148	25%
3,051 to 3,700 metres	0	0%	68	11%
3,701 to 6,700 metres	6	20%	59	10%
Total	30	100%	604	100%

During 1999, AKITA increased the rig capacity of one of its deep rigs to 5,000 metres from 3,800 metres to meet deeper gas drilling needs. AKITA purchased its fourth top drive as part of this rig upgrade. AKITA's capital expenditure program is designed to be adaptable to changing market conditions without compromise of quality.

WORKING IN CANADA'S NORTHERN TERRITORIES

AKITA has been a part of the north since 1982 and is responding to the new levels of activity in this area. During the year, the Company had five rigs working "North of 60" near Fort Liard or Norman Wells.

Remoteness of these locations coupled with seasonal and logistical challenges make this market segment both difficult to manage and exciting in its potential. One element of AKITA's approach to working in these regions is to work in partnership with the predominantly aboriginal communities. AKITA has formalized this commitment through the establishment of three different joint ventures.

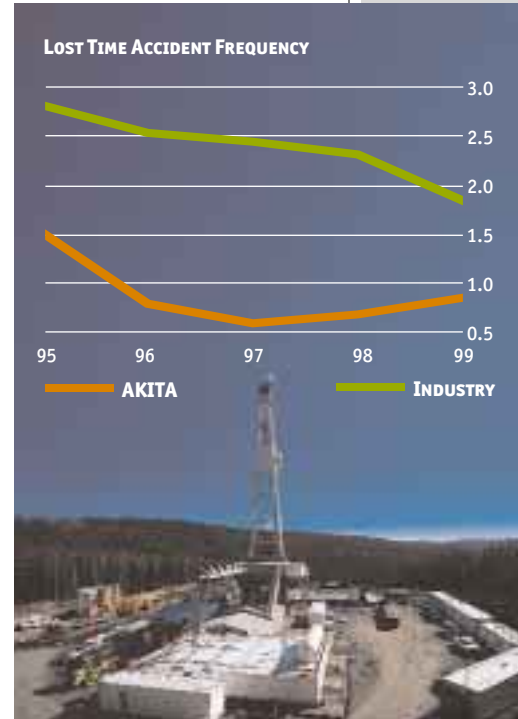
AKITA views the North as a long-term strategic subset of the Canadian drilling market. Although the Company has already received some benefits by being involved in this geographic segment, most of the major rewards from this region will not be derived until future years.

SAFETY IS A TOP PRIORITY

AKITA is strongly committed to the ongoing safety of its employees and continually achieves one of the safest working records in the Canadian drilling industry. The Company considers methods to eliminate or reduce hazards in the design of equipment and through the execution of standardized operating procedures. AKITA's lost time accident frequency, which represents lost time accidents per 200,000 hours worked, has been consistently and significantly better than the industry average as demonstrated in the following table:

LOST TIME ACCIDENT FREQUENCY

	Five Year Average	1999	1998	1997	1996	1995
AKITA	0.89	0.86	0.69	0.60	0.80	1.52
Industry	2.40	1.85	2.32	2.45	2.54	2.82
AKITA's frequency as a percentage of industry	37.1	46.5	29.7	24.5	31.5	53.9



Field employees complete extensive safety training and must meet current industry certifications. Managers, employees and subcontractors are all required to understand and accept their responsibility for maintaining a safe working environment.

WORKING CO-OPERATIVELY WITH THE ENVIRONMENT

AKITA has had a long-standing commitment to ensure that its daily operations are environmentally responsible and are in compliance with all regulatory requirements. The Company continually monitors products used and procedures followed in its operations as well as changes in regulations to ensure responsible management of environmental issues. The Board of Directors receives regular reports regarding compliance with AKITA's comprehensive environmental management programs. AKITA's programs have been in place for several years and are continually monitored, improved upon and added to as circumstances warrant.

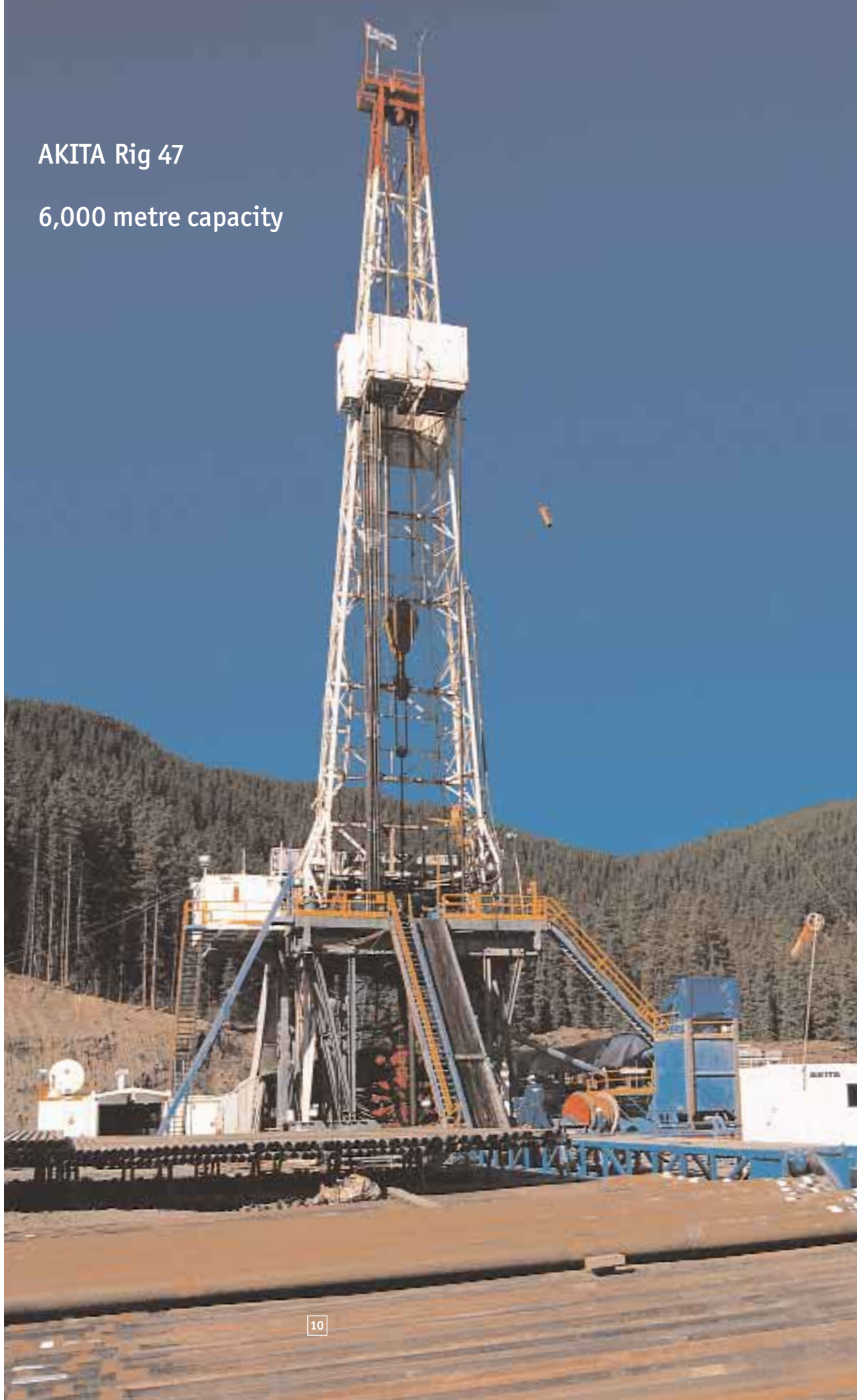
FUTURE OUTLOOK

AKITA faces a promising future in 2000 and beyond. The Western Canadian Sedimentary Basin has proven to be a dynamic region for the oil and gas service industry. Strong commodity prices for oil and gas should continue to provide significant cash flow for oil and gas producers which should, in turn, provide the opportunity for improved utilization and profit margins for AKITA.

AKITA Rig 47

6,000 metre capacity

AKITA



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with AKITA's audited financial statements and related notes contained in this annual report.

REVENUE AND EXPENSES

Overall revenue decreased to \$61,316,000 or \$11,216 per operating day during 1999 from \$75,463,000 or \$12,810 per operating day during 1998 as a result of lower utilization and day rates. Operating and maintenance costs vary directly with revenue and amounted to \$41,803,000 or \$7,645 per operating day during 1999 compared with \$48,205,000 or \$8,183 per operating day for the prior year.

AKITA depreciates its rigs using the unit of production method based on an estimated life of 2,000 operating days per rig. Depreciation increased to \$5,627,000 during 1999 from \$5,022,000 during 1998. This increase resulted from a general increase in the average cost base of the fleet as a result of ongoing major capital upgrades. Assets other than rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation.

Selling and administrative expenses were 9.9% of total revenue in 1999 compared to 10.0% of total revenue in 1998. The single largest component was salaries and benefits, which, despite being reduced by \$636,000, accounted for 66% of these expenses (61% in 1998).

Other income decreased to \$1,403,000 in 1999 from \$5,058,000 in 1998. On May 1, 1998 AKITA received a \$3,655,000 dividend on its 9.3% equity investment in Western Rock Bit Company Limited which sold substantially all of its assets earlier in that year. A formal plan to wind up Western Rock Bit was approved and AKITA anticipates that any future dividends from Western Rock Bit will not have a material impact on its earnings or cash flow. AKITA received a \$322,000 dividend from Western Rock Bit in 1999 that was applied against the cost of the investment rather than contributing to earnings. Interest income remained virtually unchanged at \$1,340,000 in 1999 compared to \$1,356,000 in 1998.

Income tax expense decreased to \$3,983,000 in 1999 from \$6,855,000 in 1998 due to lower pretax earnings offset by an effective income tax rate that is more consistent with rates associated with active income sources. The average effective income tax rate increased to 43% in 1999 from 35% in 1998. The 1998 effective rate was lower than normally expected as a result of the Western Rock Bit dividend income in that year. Canadian income tax rules treat dividends differently from other forms of income earned by a corporation and consequently, a recipient corporation records no income tax expense.





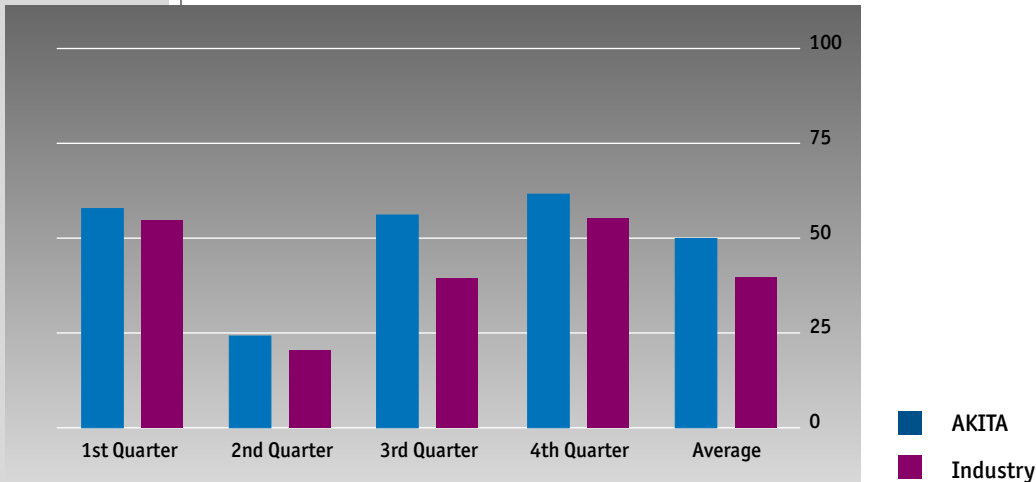
NET EARNINGS AND CASH FLOW

Net earnings decreased to \$5,211,000 or \$0.56 per Class A Non-Voting share and Class B Common share for 1999 from \$12,907,000 or \$1.36 per share in 1998. Cash flow from operations decreased to \$10,741,000 or \$1.15 per share in 1999 from \$17,914,000 or \$1.89 per share in 1998. Lower activity levels and day rates coupled with the lack of Western Rock Bit dividend income accounted for these reductions in earnings and cash flow.

FLEET AND UTILIZATION

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 1999, AKITA's utilization rate was 49.9%, which was 3.9 percentage points lower than the previous year but 10.2 percentage points higher than the 1999 industry average. For the third consecutive year, deep rig activity targeting natural gas led the market. Medium depth capacity rigs, which typically drill for oil targets, represented the slowest segment.

The following graph highlights AKITA's 1999 utilization rates compared to the industry average:



The Canadian drilling industry is seasonal with activity building in the fall and peaking during the winter months as northern transportation routes become available when areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak Canadian drilling season ends with "spring breakup", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

Although the oil and gas industry's shift away from oil exploration and development had a negative impact on the levels of horizontal drilling for the past two years, this form of drilling continues to be a distinct and important market segment for the contract drilling industry. Horizontal drilling, in comparison to conventional drilling practices, exposes more of the oil and gas bearing geological formation to the well bore and is particularly effective for heavy oil reservoirs, thin production zones and thicker zones with marginal permeability. AKITA anticipates that horizontal drilling will increase as a result of higher oil prices. The Company has the equipment to remain an active participant in the horizontal drilling market.

LIQUIDITY AND CAPITAL RESOURCES

As a result of AKITA's strong financial position, capital expenditures were funded entirely out of internally generated cash flow for both 1999 and 1998. At December 31, 1999, AKITA had \$28,643,000 in working capital including \$20,729,000 in cash, compared to \$30,481,000 in working capital and \$27,944,000 in cash for the previous year.

In addition to cash reserves, AKITA has a \$5,000,000 bank operating line of credit at prime interest rates secured by accounts receivable. The total amount of available financing varies with receivable balances. As a result of current and anticipated cash flows from operations, AKITA expects to retain a positive net cash position throughout 2000. AKITA has no long term debt.

DIVIDENDS

During 1999, AKITA paid dividends totalling \$0.28 per share (\$2,632,000) on its Class A Non-Voting and Class B Common shares compared to \$0.24 per share (\$2,280,000) for 1998. The payment of any dividends is at the discretion of the Board of Directors and depends upon the financial condition of AKITA and other factors.

NORMAL COURSE ISSUER BID

During 1999, the Company purchased 342,800 Class A Non-Voting Shares at an average price of \$8.79 pursuant to a Normal Course Issuer Bid which commenced on January 22, 1999 and expired on January 21, 2000.

On January 20, 2000, AKITA filed a new notice of intention to make a Normal Course Issuer Bid for the purchase of up to 5% of its outstanding Class A Non-Voting shares during the period January 24, 2000 to January 23, 2001. As at March 15, 2000, 80,800 Class A Non-Voting shares had been purchased at a cost of \$701,000.



CAPITAL ASSETS

Net fixed asset additions were \$7,670,000 in 1999 compared with \$7,832,000 in the previous year. The highlight of 1999's capital expenditure program was the upgrading and modification of Rig #45 at a cost of \$3,545,000. This project resulted in the increase in capacity for the rig from 3,800 metres to 5,000 metres as well as the addition of a top drive. AKITA now owns four top drives for its rigs. In addition to this major project, rig expenditures totalling \$1,664,000 for rig equipment and \$596,000 for tubulars were made during the year. The balance of capital expenditures related to the purchase of vehicles and other equipment.

AKITA's net book values for rigs and related equipment are significantly lower than current replacement costs. At year-end, the average carrying value of AKITA's rig fleet was less than \$1.1 Million per rig. AKITA's conservative depreciation policy is designed to reduce the risk of its asset carrying values being overstated at any point in the drilling cycle.

INVESTMENTS

AKITA owns 430 of the 4,644 shares issued and outstanding in 31323 Alberta Ltd. (formerly Western Rock Bit Company Limited), a private company. In March 1998, Western Rock Bit Company Limited sold substantially all of its assets. Shortly thereafter it distributed approximately 85% of the proceeds from this sale as dividends. During 1999, AKITA received an additional dividend of \$322,000. This distribution did not have any impact on earnings for AKITA since it has been applied to reduce the carrying value of the asset.

YEAR 2000

The Year 2000 issue arose because many computer systems use two digits rather than four digits to identify a year. Date sensitive systems may recognize the year 2000 as 1900, or some other date, resulting in errors when information using dates beyond 1999 is processed. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed prior thereto, the impact on operations and financial reporting may range from minor errors to significant system failures that could affect an entity's ability to conduct normal business operations.

Computers, information technology and electronic devices used at AKITA have been tested and if required replaced or modified as Year 2000 compliant. In addition, AKITA's success in minimizing the impact of the Year 2000 issue and ensuring a reliable transition also depended on the readiness of external parties. All critical business partners were contacted and confirmed they were compliant. Contingency plans to deal with any failure of mission critical systems were updated during 1999.

No Year 2000 difficulties have been encountered to date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect AKITA, including those related to customers, suppliers or other third parties, have been fully resolved.

AKITA spent approximately \$250,000 to investigate, test and remediate the Year 2000, split evenly between 1998 and 1999. To the extent that costs incurred also result in extending the service lives of assets beyond the year 2000, those costs have been capitalized.

BUSINESS RISKS AND RISK MANAGEMENT

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers. Customer activity is seasonal and, in turn, directly affected by a variety of factors, including weather, world oil and North American natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle.

The success of AKITA also depends on other factors, including competition and the management of operational and environmental risks.

AKITA manages its risks in these areas by:

- employing well trained, experienced and responsible employees
- improving the skills of its employees through training programs
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program
- constantly upgrading its rig fleet
- maintaining comprehensive insurance policies with respect to its operations
- ensuring that all employees comply with clearly defined safety standards
- reducing environmental risk through the implementation of industry leading standards, policies and procedures





AKITA is subject to federal, provincial, territorial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from drilling operations.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of deleterious materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as its own well developed and closely monitored internal procedures through a program of regular environmental audits. Some risk of unintentional breaches of environmental protection laws and potential liability is occasionally inherent in particular operations of the industry.

AKITA does not believe that environmental protection laws and regulations affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks, in the absence of negligence. As a matter of policy, AKITA ensures blowout insurance has been obtained by its customers and thereby reduces its related risk.

FUTURE OUTLOOK

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

During 1999, the drilling industry experienced a decrease in activity levels. In 2000, AKITA anticipates activity will increase, particularly in light of current oil prices which are higher than in 1999. The current industry forecast prepared by the Canadian Association of Oilwell Drilling Contractors projects over 14,300 wells to be drilled in 2000, compared to 10,608 wells in 1999. It is management's view that this forecast is achievable but is susceptible to changes in commodity prices. Should equity markets provide significant new capital for oil and gas producers, potential exists to exceed this forecast amount. AKITA expects demand for its rigs will remain stronger than industry average, as has been the case in each of AKITA's previous years.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to the organization contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, estimates of transactions and operations that were incomplete at year-end have been made by management. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining systems of internal control. These systems are designed to provide assurance that assets are safeguarded from loss or unauthorized use, that transactions are properly recorded and that the financial records are reliable for preparing the financial statements.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the financial statements, which included an evaluation of internal controls to the extent they considered necessary, and have had full access to the Audit Committee. Their report appears on the following page.

The Board of Directors, through its Audit Committee comprised of three non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

Signed

John B. Hlavka
President

Signed

Murray J. Roth
Secretary-Treasurer



AUDITORS' REPORT

To the Shareholders of AKITA Drilling Ltd.

We have audited the balance sheets of AKITA Drilling Ltd. as at December 31, 1999 and 1998 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed
PricewaterhouseCoopers LLP

Chartered Accountants
March 17, 2000, Calgary, Alberta



BALANCE SHEET

(Dollars in thousands)

December 31		1999	1998 (restated - Note 2)
Assets			
Current assets			
Cash		\$ 20,729	\$ 27,944
Accounts receivable		20,340	11,885
Other		690	283
		41,759	40,112
Investments	Note 1	42	364
Capital assets	Note 3	31,662	29,556
		\$ 73,463	\$ 70,032
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 11,455	\$ 9,155
Income taxes payable		1,661	476
		13,116	9,631
Deferred income taxes		2,177	2,211
Class A and Class B Shareholders' Equity			
Share capital	Note 4	18,206	18,876
Retained earnings		39,964	39,314
		58,170	58,190
		\$ 73,463	\$ 70,032

Approved by the Board

Signed

Dale R. Richardson

Director

Signed

C. Perry Spitznagel

Director

STATEMENT OF EARNINGS AND RETAINED EARNINGS

(Dollars in thousands, except per share)

Year ended December 31	1999	1998 (restated - Note 2)
Revenue	\$ 61,316	\$ 75,463
Costs and expenses		
Operating and maintenance	41,803	48,205
Depreciation	5,627	5,022
Selling and administrative	6,095	7,532
	53,525	60,759
	7,791	14,704
Other income	Note 6 1,403	5,058
Earnings before income taxes	9,194	19,762
Income taxes	Note 7	
Current	4,017	6,823
Deferred	(34)	32
	3,983	6,855
Net earnings	5,211	12,907
Retained earnings, beginning of year	39,314	29,321
Dividends	Note 2 (2,700)	(2,375)
Refundable dividend tax	461	(459)
Adjustment on repurchase and cancellation of share capital	(2,322)	-
Cancellation of stock options	-	(80)
Retained earnings, end of year	\$ 39,964	\$ 39,314
Earnings per Class A and Class B share		
Basic	\$ 0.56	\$ 1.36
Fully diluted	\$ 0.55	\$ 1.35



STATEMENT OF CASH FLOWS

(Dollars in thousands, except per share)

Year ended December 31	1999	1998
Operating activities		
Net earnings	\$5,211	\$ 12,907
Non-cash items included in earnings		
Depreciation	5,627	5,022
Deferred income taxes	(34)	32
Gain on disposal of capital assets	(63)	(47)
Cash flow from operations	10,741	17,914
Change in non-cash working capital	(5,667)	(6,039)
	5,074	11,875
Investing activities		
Capital expenditures	(7,670)	(7,832)
Capital dividend from investment	322	–
Refundable dividend tax	461	(459)
Change in non-cash working capital	222	1,462
	(6,665)	(6,829)
Financing activities		
Repurchase of share capital	(3,015)	–
Issue of Class A Non-Voting shares	23	–
Dividends	(2,700)	(2,375)
Cancellation of stock options	–	(80)
Change in non-cash working capital	68	80
	(5,624)	(2,375)
Increase (decrease) in cash	(7,215)	2,671
Cash position, beginning of year	27,944	25,273
Cash position, end of year	\$ 20,729	\$ 27,944
Cash flow from operations per Class A and		
Class B share		
Basic	\$ 1.15	\$ 1.89
Fully diluted	\$ 1.14	\$ 1.87

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

(tabular amounts in thousands of dollars except where noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition on contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Any anticipated loss is provided for in its entirety when the estimated loss is identified.

Depreciation

Drilling rigs are depreciated using the unit of production method based on an initial estimated life of 2,000 days per rig.

Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum.

Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 10% to 25% per annum.

Investments

The Company records ownership of its investment in 31323 Alberta Ltd. (formerly Western Rock Bit Company Limited), a private company, at cost.

Stock based compensation plans

The Company has two stock-based compensation plans, which are described in Note 5. No compensation expense is recognized for these plans when stock options or share appreciation rights are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. If stock options are repurchased from participants, the consideration paid is charged to retained earnings.

Compensation expense for share appreciation rights is accrued monthly to the date of vesting based upon the excess of anticipated share price as determined by independent third parties over the base value of the rights. The accrued liability is adjusted for the effect of changes in the anticipated share price through charges or credits to compensation expense.





2. CHANGE IN ACCOUNTING FOR DIVIDENDS

During the year, the Company changed its policy with respect to accounting for dividends. Previously, the Company recorded dividends at the date of payment. Under the new policy, AKITA will record a charge against retained earnings on the date that a dividend is declared and set up a current liability. The effect of this change on the December 31, 1999 balance sheet is to decrease retained earnings and increase accounts payable and accrued liabilities by \$733,000. This change in accounting has been applied retroactively and, accordingly the 1998 comparative financial statements have been restated to decrease retained earnings and increase accounts payable and accrued liabilities by \$665,000, and increase dividends by \$95,000.

3. CAPITAL ASSETS

	1999		1998	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Drilling rigs and related equipment	\$ 51,583	\$ 20,988	\$ 44,271	\$ 15,768
Other	2,387	1,320	2,175	1,122
	\$ 53,970	\$ 22,308	\$ 46,446	\$ 16,890
Net Book Value	\$31,662		\$29,556	

4. SHARE CAPITAL

Authorized

An unlimited number of Series Preferred shares, issuable in series, designated as First Preferred Shares

An unlimited number of Series Preferred shares, issuable in series, designated as Second Preferred Shares

An unlimited number of Class A Non-Voting Shares

An unlimited number of Class B Common Shares

Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
December 31, 1997	8,669,569	\$17,506	829,952	\$1,370	9,499,521	\$18,876
Purchased	-	-	-	-	-	-
Stock option plans	-	-	-	-	-	-
Conversions Class B to Class A	-	-	-	-	-	-
December 31, 1998	8,669,569	17,506	829,952	1,370	9,499,521	18,876
Purchased	(342,800)	(693)	-	-	(342,800)	(693)
Stock option plans	5,000	23	-	-	5,000	23
Conversions Class B to Class A	1,610	2	(1,610)	(2)	-	-
December 31, 1999	8,333,379	\$16,838	828,342	\$1,368	9,161,721	\$18,206

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

On January 22, 1999, the Company commenced a Normal Course Issuer Bid for the purchase of up to 5% of the outstanding Class A Non-Voting shares. In 1999, 342,800 shares were repurchased and cancelled under this plan at a cost of \$3,015,000, of which \$693,000 was charged to share capital and \$2,322,000 to retained earnings.

On January 24, 2000, the Company commenced a new Normal Course Issuer Bid for the purchase of up to 5% of the outstanding Class A Non-Voting shares. The offer will expire on January 23, 2001.

Basic earnings per share and cash flow per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Fully diluted earnings per share and fully diluted cash flow per share have been calculated using the weighted average number of Class A Non-Voting and Class B Common shares that would have been outstanding had all of the stock options been exercised at the beginning of the year.



5. STOCK BASED COMPENSATION PLANS

At December 31, 1999, the Company had two fixed stock-based compensation plans, which are described below.

The Company's Compensation and Succession Committee, subject to Board approval, may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting Shares. A maximum of 850,000 Class A Non-Voting Shares may be reserved for issuance pursuant to outstanding options. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the date of grant.

In addition to stock options, share appreciation rights (SARs) may be granted to directors, officers and key employees of the Company. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. The holder is entitled on exercise to receive a cash payment from the Company equal to any increase in the market price of the Class A Non-Voting Shares over the base value of the SAR exercised. The base value is equal to the closing price of the Class A Non-Voting shares on the day before grant.

A summary of the status of the Company's stock based compensation plans as of December 31, 1999 and 1998, and changes during the years ending on those dates is presented below:

	1999		1998	
	Shares	Weighted Average Exercise Price (\$)	Shares	Weighted Average Exercise Price (\$)
Outstanding at beginning of year	390,000	7.38	390,000	7.38
Granted	45,000	7.39	–	–
Exercised	(5,000)	4.55	–	–
Cancelled	(25,000)	8.98	–	–
Outstanding at end of year	405,000	7.37	390,000	7.38
Options exercisable at year-end	135,000	4.94	95,000	3.51
Share appreciation rights at year-end	270,000	8.59	295,000	8.62



The following table summarizes information about stock based compensation plans at December 31, 1999:

Exercise Price	Number Outstanding	Remaining Contractual Life in Years	Number Exercisable
\$ 0.76	20,000	3.0	20,000
4.55	70,000	3.9	70,000
3.65	20,000	4.1	20,000
8.98	250,000	7.0	190,000
7.39	45,000	9.1	9,000

Share appreciation rights expense (recovery) amounted to \$640,000 (1998 - (\$544,000)).

6. OTHER INCOME

	1999	1998
Interest	\$ 1,340	\$ 1,356
Dividends	-	3,655
Gain on sale of capital assets	63	47
	\$ 1,403	\$ 5,058

On May 1, 1998, the Company received a \$3,655,000 dividend on its investment in Western Rock Bit Company Limited which had sold substantially all of its assets as part of a plan to wind up the company. Management does not anticipate that any future dividend will have a material effect on the Company's earnings or cash flow.

7. INCOME TAXES

The income tax provision differs from that which would be computed using the statutory rates.

A reconciliation of the differences is as follows:

	1999	1998
Earnings before income taxes	\$ 9,194	\$ 19,762
Expected income tax at statutory rate of 45%	4,137	8,893
Add (Deduct):		
Dividend income	-	(1,645)
Other	(154)	(393)
Income tax provision	\$ 3,983	\$ 6,855

Income taxes paid amounted to \$2,832,000 (1998 - \$10,643,000).

8. RELATED PARTY

The Company is affiliated to the ATCO Group of companies through its majority shareholder. The accompanying table summarizes transactions and year end balances with those affiliates. These transactions were in the ordinary course of business and were considered to be at fair market value.

	1999	1998
Revenue	\$ -	\$ -
Purchases		
Capital	183	-
Operating	108	91
Year end accounts receivable	-	-
Year end accounts payable	17	5

9. PENSIONS

The Company has a defined contribution Pension Plan which covers substantially all of its employees. Under the provisions of the Plan, the Company contributes 5% of regular earnings for eligible employees on a current basis.

The Company has also established an unfunded defined benefit Pension Plan for selected employees. At December 31, 1999 the unfunded present value of accrued pension benefits amounted to \$2,125,000 of which \$1,725,000 has been provided for in the financial statements. The balance will be amortized over the estimated remaining service lives of the respective employees.

10. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities as at December 31, 1999 included cash, accounts receivable, accounts payable and the 9.3% equity investment in 31323 Alberta Ltd. (formerly Western Rock Bit Company Limited) (WRB). During the year, the Company did not hold or issue any derivative financial instruments.

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 satisfy any anticipated bad debts.

Due to the current nature of cash, accounts receivable and accounts payable, fair value of these items is considered to be equal to book value.

The Company's investment in WRB is carried at cost which, in the opinion of management, approximates fair value.

11. COMMITMENT

The Company leases its office space at an annual cost of approximately \$172,000 per year. Lease expiry will occur in 2005.

12. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. Since the change in date has occurred, AKITA's computer systems have continued to operate as usual and, to date, there have been no service interruptions as a result of Year 2000 problems. However, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved.



FINANCIAL REVIEW FROM THE COMMENCEMENT OF OPERATIONS

(Dollars in thousands, except per share and per operating day)

	1999	1998	1997	1996
Summary of Operations				
Revenue	\$ 61,316	\$ 75,463	\$ 89,100	\$ 63,340
Earnings before income taxes	\$ 9,194	\$ 19,762	\$ 21,421	\$ 12,841
Income taxes	\$ 3,983	\$ 6,855	\$ 10,058	\$ 5,728
Net earnings	\$ 5,211	\$ 12,907	\$ 11,363	\$ 7,113
As a percentage of average				
shareholders' equity	9.0%	24.0%	25.5%	19.3%
Earnings per Class A and Class B share	\$ 0.56	\$ 1.36	\$ 1.20	\$ 0.77
Cash flow from operations	\$ 10,741	\$ 17,914	\$ 15,467	\$ 9,713
As a percentage of average				
shareholders' equity	18.5%	33.3%	34.7%	26.3%
Cash flow per Class A and Class B share	\$ 1.15	\$ 1.89	\$ 1.63	\$ 1.05
EBITDA(Note)	\$ 13,418	\$ 19,726	\$ 24,228	\$ 13,715
EBITDA per operating day	\$ 2,454	\$ 3,348	\$ 3,288	\$ 2,272
Financial position at year end				
Working capital	\$ 28,643	\$ 30,481	\$ 23,883	\$ 26,844
Current ratio	3.18:1	4.16:1	2.04:1	3.47:1
Total assets	\$ 73,463	\$ 70,032	\$ 73,947	\$ 53,603
Shareholders' equity	\$ 58,170	\$ 58,190	\$ 48,767	\$ 40,460
per share	\$ 6.35	\$ 6.13	\$ 5.13	\$ 4.27
Other				
Capital expenditures	\$ 7,670	\$ 7,832	\$ 15,372	\$ 3,760
Depreciation	\$ 5,627	\$ 5,022	\$ 4,247	\$ 2,547

Note: EBITDA is calculated as earnings before interest, dividend income, taxes, depreciation and amortization

1995	1994	1993
\$ 57,429	\$ 61,498	\$ 44,142
\$ 11,200	\$ 12,401	\$ 4,751
\$ 5,147	\$ 5,377	\$ 2,166
\$ 6,053	\$ 7,024	\$ 2,585
19.8%	29.1%	15.5%
\$ 0.66	\$ 0.77	\$ 0.32
\$ 8,475	\$ 9,184	\$ 4,458
27.8%	38.1%	26.8%
\$ 0.93	\$ 1.01	\$ 0.55
\$ 12,192	\$ 13,262	\$ 5,404
\$ 2,222	\$ 2,133	\$ 1,055
\$ 20,932	\$ 16,351	\$ 10,675
3.28:1	2.29:1	2.38:1
\$ 44,610	\$ 41,999	\$ 29,937
\$ 33,388	\$ 27,574	\$ 20,650
\$ 3.66	\$ 3.03	\$ 2.27
\$ 3,655	\$ 3,408	\$ 1,737
\$ 2,206	\$ 1,986	\$ 1,254



CORPORATE INFORMATION

DIRECTORS

William L. Britton, Q.C.
Partner, Bennett Jones
Deputy Chairman of the Board
of the Corporation
Calgary, Alberta

Linda A. Heathcott
Executive Vice President,
Spruce Meadows
Calgary, Alberta

John B. Hlavka
President of the Corporation
Calgary, Alberta

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

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

Nancy C. Southern
Deputy Chairman, ATCO Ltd. and
Canadian Utilities Limited
Calgary, Alberta

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

C. Perry Spitznagel
Partner, Bennett Jones
Calgary, Alberta

OFFICERS

John B. Hlavka
President

Robert J. Hunt
Vice President, Sales and Marketing

Craig W. Kushner
Assistant Secretary

Murray J. Roth
Secretary-Treasurer

Karl A. Ruud
Vice President, Operations

HEAD OFFICE

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1110, 505 - 3rd Street S.W.,
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(403)292-7979

BANKER

Alberta Treasury Branches,
Calgary, Alberta

COUNSEL

Bennett Jones,
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers LLP,
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

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

SHARE SYMBOL/TSE

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

