Q2

To the Shareowners

AKITA Drilling Ltd.'s net loss for the three months ended June 30, 2010 was $567,000 ($0.03 loss per share) on revenue of $19,357,000 compared to net earnings of $555,000 ($0.03 per share) on revenue of $17,881,000 in 2009. Funds flow from operations for the quarter ended June 30, 2010 was $3,758,000 compared to $2,750,000 in the corresponding quarter in 2009.

Earnings for the six months ended June 30, 2010 were $448,000 ($0.02 per share) on revenue of $52,592,000. Comparative figures for 2009 were earnings of $4,463,000 ($0.24 per share) on revenue of $59,577,000. Funds flow from operations for the period was $10,824,000 compared to $14,801,000 in 2009.

Operating statistics for the first six months of 2010 and 2009 are as follows:

		Number of Rigs		Operating Days *(Year to Date)*
		Gross	Net	
Canada	**2010**	**37**	**34.225**	**2,556**
	2009	39	36.225	2,067
United States	**2010**	**2**	**1.0**	**18**
	2009	2	1.0	210
Total	**2010**	**39**	**35.225**	**2,574**
	2009	41	37.225	2,277

Demand for rigs having certain capacities, particularly for heavy doubles and light triples increased during the second quarter. This increase in activity was offset by revenue rates that fell throughout most of last year and have not yet recovered to levels that were comparable to rates at the beginning of 2009. Consequently, earnings and funds flow are lower than comparative figures for 2009. Wet weather, particularly in June, delayed the start-up of a number of rigs until the third quarter. This also had an adverse impact on results.

Demand for conventional (i.e. non-pad or specialized) rigs has improved, but remains far below supply. The categories of rigs that are most affected include deep (i.e. 5,000 metre plus capacities) and shallow (i.e. under 1,500 metre capacities), as these rigs typically drill for natural gas in conventional formations. As a result of low natural gas prices, limited opportunities for work are available.

The Company continues to receive inquiries about expanding its pad drilling capabilities. Earlier this year, AKITA retrofitted two of its smaller rigs (2,000 metre and 2,200 metre capacities) to perform pad drilling for a specialized project that is expected to commence during the third quarter. In addition, AKITA is upgrading one of its existing rigs into a 4,000 metre pad rig for heavy oil or shale gas drilling. Management anticipates that pad rig demand should remain strong for the foreseeable future.

On behalf of the Board of Directors,

Linda A. Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

Management's Discussion & Analysis

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

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

Cyclical and Seasonal Nature of AKITA's Operations

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

Historically, AKITA has generally exceeded industry average rig utilization rates as a result of customer relations, employee expertise, safety performance, equipment quality and drilling performance. Western Canadian annual drilling utilization, which, in 2009, was at a 10 year cyclical low, is summarized in the following table:

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

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

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

In addition to the cyclical nature of AKITA's business, readers should also be aware that historically, the first quarter of the calendar year is the strongest in the drilling industry. Lower activity levels that result from warmer weather which necessitates travel bans on public roads, characterize the second quarter.

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

Utilization rates expressed in percentages	*Three Months Ended June 30*		*Six Months Ended June 30*	
	AKITA	Industry (1)	**AKITA**	Industry (1)
2010	**24.6**	18.3	**36.5**	31.9
2009	**16.2**	10.7	**30.7**	23.8

(1) Source: CAODC

Revenue and Operating & Maintenance Expenses

$Million	*Three Months Ended June 30*				*Six Months Ended June 30*			
	2010	2009	Change	%Change	**2010**	2009	Change	%Change
Revenue	**19.4**	17.9	1.5	8%	**52.6**	59.6	(7.0)	(12%)
Operating & Maintenance Expenses	**12.9**	10.9	2.0	18%	**34.6**	36.1	(1.5)	(4%)

Overall revenue decreased to $52,592,000 during the first six months of 2010 from $59,577,000 during the first six months of 2009 as a result of weaker day rates for most of AKITA's rigs, especially for rigs involved in conventional drilling activities. By contrast, rates for pad rigs were more stable on a comparative basis. In addition, the Company had less standby revenue in the first six months of 2010 compared to the comparative period in 2009. Revenue per operating day decreased to $20,432 during the first six months of 2010 from $26,165 per operating day in the corresponding period in 2009 and was also influenced adversely by each of the foregoing factors. Operating and maintenance costs are tied to activity levels and amounted to $34,625,000 or $13,452 per operating day during the first six months of 2010 compared to $36,099,000 or $15,854 per operating day in the corresponding period of the prior year. As a result of an increased proportion of work being for conventional applications during the first six months of 2010, the Company's "per-day" operating margin (being the difference between revenue per day and operating and maintenance costs per day) decreased to $6,980 compared to the daily operating margin of $10,311 for the corresponding period in 2009.

During the second quarter of 2010, overall revenue increased to $19,357,000 compared to $17,881,000 during the corresponding period in 2009. On a "per operating day" basis, second quarter revenue decreased to $22,173 in 2010 compared to $29,604 per day in 2009. Revenue and revenue per day decreased in the second quarter as a result of the same factors as on a year-to-date basis. Operating and maintenance costs for the second quarter amounted to $12,935,000 or $14,817 per operating day during 2010, compared to $10,949,000 or $18,127 per operating day for 2009. The Company's "per-day" operating margin for the second quarter of 2010 was $7,356 compared to a "per-day" operating margin of $11,477 during the corresponding quarter in 2009. It is typical for maintenance costs to increase during the second quarter of each year as equipment is repaired following the busier winter drilling season.

In 2006, the Company entered into a multi-year daywork contract for the provision of drilling services which includes certain pre-payment requirements. In this regard, the Company has recorded $1,626,000 at June 30,

2010 as deferred revenue in accordance with its revenue recognition policy (June 30, 2009 - $2,830,000).

Depreciation Expense

$Million	Three Months Ended June 30				Six Months Ended June 30			
	2010	2009	Change	Change%	**2010**	2009	Change	Change%
Depreciation Expense	**4.1**	2.7	1.4	52%	**10.8**	9.2	1.6	17%

The depreciation expense increase to $10,801,000 during the first six months of 2010 from $9,247,000 in the corresponding period in 2009 was attributable to a higher average cost base due to the addition of new rigs to AKITA's rig fleet, combined with an increase in overall rig activity on a year-to-date basis. AKITA's rigs are depreciated on a unit of production basis and the busiest segment of the fleet during 2010 was the pad rigs, which is also the highest in terms of average cost base. Drilling rig depreciation accounted for 80% of total depreciation expense in the first six months of 2010 (2009-76%).

Selling and Administrative Expense

$Million	Three Months Ended June 30				Six Months Ended June 30			
	2010	2009	Change	Change%	**2010**	2009	Change	Change%
Selling & Administrative Expense	**3.2**	3.7	(0.5)	(14%)	**6.8**	8.1	(1.3)	(16%)

Selling and administrative expenses were 13.0% of total revenue in the first six months of 2010 compared to 13.5% of total revenue in the corresponding six month period of 2009, as the Company had successfully scaled its selling and administrative costs to the reduced revenue levels. The single largest component was salaries and benefits, which accounted for 53% of these expenses (57% in 2009).

Other Income (Expenses)

$Million	Three Months Ended June 30				Six Months Ended June 30			
	2010	2009	Change	Change%	**2010**	2009	Change	Change%
Interest Income	**0.3**	0.1	0.2	200%	**0.4**	0.3	0.1	33%
Gain on Sale of Joint Venture Interests and Other Assets	**0.0**	0.1	(0.1)	N/A	**0.0**	0.1	(0.1)	N/A
Gain (Loss) on Foreign Currency Translation	**0.0**	(0.1)	0.1	N/A	**0.0**	(0.1)	0.1	N/A

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income for the first six months of 2010 increased to $374,000 from $288,000 for the corresponding period in 2009 as a result of an increase in the average short-term interest rates achieved.

The gain on sale of joint venture interests in rigs and other assets totalled $46,000 in 2010, compared to $79,000 in the first six months of 2009.

In the first six months of 2010, the Company recorded a gain from foreign currency translation of $22,000 from its United States operations, compared to a loss from foreign currency translation of $95,000 in the first six months of 2009. An additional negative foreign currency adjustment of $37,000 (before a tax adjustment of $12,000) was recorded through other comprehensive income compared to a negative foreign currency adjustment of $252,000 in the first six months of 2009.

Income Tax Expense

$Million	Three Months Ended June 30				Six Months Ended June 30			
	2010	2009	Change	Change%	**2010**	2009	Change	Change%
Current Tax Expense	**(0.1)**	0.3	(0.4)	(133%)	**0.8**	0.7	0.1	14%
Future Tax Expense	**0.1**	(0.2)	0.3	150%	**(0.5)**	1.3	(1.8)	(138%)

Income tax expense decreased to $342,000 in the first six months of 2010 from $1,983,000 in the corresponding period in 2009, due to lower pre-tax earnings, which were partially offset by a higher income tax rate. A higher proportion of profitable work was achieved in locations having higher tax rates in 2010.

Net Earnings (Loss) and Funds Flow

$Million	Three Months Ended June 30				Six Months Ended June 30			
	2010	2009	Change	Change%	**2010**	2009	Change	Change%
Net Earnings (loss)	**(0.6)**	0.6	(1.2)	(200%)	**0.4**	4.5	(4.1)	(91%)
Funds Flow from Operations (1)	**3.8**	2.8	1.0	36%	**10.8**	14.8	(4.0)	(27%)

(1) See commentary regarding Non-GAAP Measure

During the three months ended June 30, 2010, the Company posted a loss of $567,000 or $0.03 loss per Class A Non-Voting and Class B Common share ($0.03 diluted loss per share) compared to net earnings of $555,000 ($0.03 basic and diluted earnings per share) for the corresponding period in 2009. Although earnings declined, quarterly funds flow from operations increased to $3,758,000 for the three months ended June 30, 2010 compared to $2,750,000 for the corresponding period in 2009. Higher depreciation charges in the current quarter compared to the corresponding quarter in 2009 had no impact on funds flow, but were sufficient to convert a net earnings position into a loss.

Net earnings decreased to $448,000 or $0.02 per Class A Non-Voting and Class B Common share ($0.02 diluted earnings per share) for the first six months of 2010 compared to $4,463,000 ($0.24 basic and diluted earnings per share) for the corresponding period in 2009. Funds flow from operations decreased to $10,824,000 in the first six months of 2010 compared to $14,801,000 in the corresponding period in 2009.

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

Non-GAAP Measure

Funds flow from operations is not a recognized measure under Canadian GAAP. AKITA's method of determining funds flow from operations may differ from methods used by other companies and involves including operating cash flow before working capital changes. Management and certain investors may find funds flow

from operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods. The following table reconciles funds flow and cash flow from operations:

$Thousands	*Three Months Ended June 30*		*Six Months Ended June 30*	
	2010	2009	**2010**	2009
Funds Flow from Operations	**3,758**	2,750	**10,824**	14,801
Change in Non-Cash Working Capital	**12,938**	9,769	**3,222**	8,976
Cash Flow from Operations	**16,696**	12,519	**14,046**	23,777

Fleet and Rig Utilization

AKITA had 39 drilling rigs, including nine that operated under joint ventures, (35.225 net to AKITA) at the end of the second quarter of 2010, compared to 41 rigs (37.225 net) in the corresponding period of 2009. In the first six months of 2010, AKITA achieved 2,574 operating days, which corresponded to a utilization rate of 36.5% for the period. During the comparative period in 2009, the Company achieved 2,277 operating days, which corresponded to 30.7% utilization. In the second quarter of 2010, AKITA achieved 873 operating days, which corresponded to a utilization rate of 24.6% for the period. In the second quarter of 2009, the Company achieved 604 operating days, representing 16.2% utilization.

Liquidity and Capital Resources

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to augment existing resources in order to meet growth requirements.

The Company manages its capital structure and makes adjustments to it in light of 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 or issue new shares, sell assets or take on long-term debt.

Since 2000, dividend rates have increased five times with no decreases. As well, during the 10 year period since 2000, AKITA repurchased 1,345,629 Class A Non-Voting shares through Normal Course Issuer Bids, issued 440,000 Class A Non-Voting shares upon exercise of stock options and issued 666,700 Class A Non-Voting shares upon conversion of preferred shares.

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

Capital expenditures totalled $7,923,000 in the first six months of 2010. Costs included upgrades to two of

the Company's conventional rigs to add moving systems, thereby converting them into pad rigs for shallow capacity opportunities. Other major capital spending included the conversion and upgrade of capacity on an additional rig in order to convert it into a pad triple rig for oilsands or shale gas drilling. As well, the Company has upgraded one of its single sized rigs for conventional drilling. Capital expenditures for the corresponding period in 2009 were $8,346,000.

At June 30, 2010, AKITA's balance sheet included working capital (current assets minus current liabilities) of $71,434,000 compared to working capital of $66,709,000 at June 30, 2009 and working capital of $69,819,000 at December 31, 2009. The seasonal nature of AKITA's business typically affects non-cash working capital balances from quarter to quarter. Accounts receivable, and to a lesser extent accounts payable balances, have the greatest impact on non-cash working capital balances.

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

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

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

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

Summary of Quarterly Results

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

$ Thousands, except per share *Three Months Ended*	**Mar. 31**	**June 30**	Sept. 30	Dec. 31
2010				
Revenue	**33,235**	**19,357**		
Net earnings (loss)	**1,015**	**(567)**		
Basic earnings (loss) per share ($)	**0.06**	**(0.03)**		
Diluted earnings (loss) per share ($)	**0.06**	**(0.03)**		
Funds flow from operations	**7,066**	**3,758**		
Cash flow from (used in) operations	**(2,650)**	**16,696**		
2009				
Revenue	41,696	17,881	20,871	25,815
Net earnings	3,908	555	752	3,165
Basic earnings per share ($)	0.21	0.03	0.04	0.18
Diluted earnings per share ($)	0.21	0.03	0.04	0.18
Funds flow from operations	12,051	2,750	3,169	5,990
Cash flow from operations	11,258	12,519	7,924	534
2008				
Revenue	48,126	20,278	33,747	35,095
Net earnings	7,647	1,498	3,681	2,021
Basic earnings per share ($)	0.42	0.08	0.20	0.11
Diluted earnings per share ($)	0.42	0.08	0.20	0.11
Funds flow from continuing operations	14,274	3,335	7,723	8,817
Cash flow from (used in) operations	(1,325)	19,815	(6,342)	7,219

Future Outlook

Certain aspects of the drilling market appear to be either strong or improving while others continue to be either weak or very weak.

Management believes that pad drilling, which has led the market during 2009 and for the first six months of the current year, will continue to be the most profitable aspect of AKITA's business in the short and medium term, and potentially beyond. AKITA increased its pad drilling capabilities to 10 rigs (from eight) thus far in 2010 by adding moving systems to two of its light capacity double rigs. The Company is converting one of its arctic rigs into a pad rig suitable for drilling up to 4,000 metres for either heavy oil or shale gas prospects. AKITA has obtained a multi-year contract to convert one of its deep capacity triple sized rigs to drill shale gas formations in B.C.

Demand is improving for conventional heavy capacity double sized rigs and light capacity triple sized rigs. The Company has six rigs that are suitable for this market segment.

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

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

Changeover Plan for IFRS

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

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

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

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

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.

Management's Responsibility for Financial Information

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

AKITA's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of AKITA, provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with Canadian GAAP, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of AKITA's assets that could have a material effect on the consolidated financial statements.

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

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

Consolidated Balance Sheets

Unaudited		June 30		December 31
($000's)		**2010**	2009	2009
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		**$ 39,533**	$ 55,032	$ 34,142
Term deposits		**18,000**	—	18,000
Accounts receivable		**22,384**	20,828	28,523
Income taxes recoverable		**653**	1,008	330
Other		**1,009**	1,962	421
		81,579	78,830	81,416
Restricted cash		**2,500**	5,000	5,000
Capital assets		**144,862**	152,032	147,799
		$ 228,941	$ 235,862	$ 234,215
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		**$ 7,252**	$ 7,747	$ 10,123
Dividends payable		**1,267**	1,276	1,277
Deferred revenue		**1,626**	2,830	197
Current portion of pension liability		**—**	268	—
		10,145	12,121	11,597
Future income taxes		**19,541**	19,952	20,041
Pension liability		**1,180**	3,622	1,131
		30,866	35,695	32,769
CLASS A AND CLASS B SHAREHOLDERS' EQUITY				
Class A and Class B shares	Note 2	**23,199**	23,359	23,376
Contributed surplus		**2,343**	2,271	2,271
Accumulated other comprehensive income	Note 5	**(379)**	(252)	(354)
Retained earnings		**172,912**	174,789	176,153
		198,075	200,167	201,446
		$ 228,941	$ 235,862	$ 234,215

Consolidated Statements of Earnings (Loss) and Retained Earnings

Unaudited ($000's except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
REVENUE	**$19,357**	17,881	**$52,592**	$59,577
COSTS AND EXPENSES				
Operating and maintenance	**12,935**	10,949	**34,625**	36,099
Depreciation	**4,145**	2,667	**10,801**	9,247
Selling and administrative	**3,170**	3,661	**6,818**	8,057
	20,250	17,277	**52,244**	53,403
REVENUE LESS COSTS AND EXPENSES	**(893)**	604	**348**	6,174
OTHER INCOME (EXPENSE)				
Interest income	**252**	73	**374**	288
Gain on sale of joint venture interests in rigs and other assets	**46**	58	**46**	79
Gain (loss) on foreign currency translation	**22**	(97)	**22**	(95)
	320	34	**442**	272
EARNINGS (LOSS) BEFORE INCOME TAXES	**(573)**	638	**790**	6,446
INCOME TAXES				
Current	**(147)**	332	**830**	666
Future	**141**	(249)	**(488)**	1,317
	(6)	83	**342**	1,983
NET EARNINGS (LOSS)	**(567)**	555	**448**	4,463
Retained earnings, beginning of period	**175,891**	175,510	**176,153**	172,878
Dividends declared	**(1,275)**	(1,276)	**(2,552)**	(2,552)
Adjustment on repurchase and cancellation of share capital	**(1,137)**	—	**(1,137)**	—
RETAINED EARNINGS, END OF PERIOD	**$ 172,912**	$174,789	**$ 172,912**	$ 174,789
EARNINGS (LOSS) PER CLASS A AND CLASS B SHARE Note 3				
Basic	**$ (0.03)**	$ 0.03	**$ 0.02**	$ 0.24
Diluted	**$ (0.03)**	$ 0.03	**$ 0.02**	$ 0.24

Consolidated Statements of Cash Flow

Unaudited ($000's)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
OPERATING ACTIVITIES				
Net earnings (loss)	**$ (567)**	$ 555	**$ 448**	$ 4,463
Non-cash items included in net earnings (loss)				
Depreciation	**4,145**	2,667	**10,801**	9,247
Future income taxes	**129**	(432)	**(500)**	1,134
Expense for defined benefit pension plan	**25**	18	**49**	36
Stock options charged to expense	**72**	—	**72**	—
Gain on sale of joint venture interests in rigs and other assets	**(46)**	(58)	**(46)**	(79)
Funds flow from operations	**3,758**	2,750	**10,824**	14,801
Change in non-cash working capital	**12,938**	9,769	**3,222**	8,976
	16,696	12,519	**14,046**	23,777
INVESTING ACTIVITIES				
Capital expenditures	**(6,319)**	(988)	**(7,923)**	(8,346)
Reduction in cash restricted for loan guarantees	**—**	—	**2,500**	—
Proceeds on sale of joint venture interests in rigs and other assets	**105**	141	**105**	190
Change in non-cash working capital	**2,851**	(1,359)	**554**	—
	(3,363)	(2,206)	**(4,764)**	(8,156)
FINANCING ACTIVITIES				
Dividends paid	**(1,275)**	(1,276)	**(2,552)**	(2,552)
Proceeds received on exercise of stock options	**32**	32	**32**	47
Repurchase of share capital	**(1,346)**	—	**(1,346)**	—
	(2,589)	(1,244)	**(3,866)**	(2,505)
FOREIGN CURRENCY TRANSLATION	**(12)**	(384)	**(25)**	(252)
INCREASE IN CASH	**10,732**	8,685	**5,391**	12,864
Cash position, beginning of period	**28,801**	46,347	**34,142**	42,168
CASH POSITION, END OF PERIOD	**$ 39,533**	$ 55,032	**$ 39,533**	$ 55,032
Interest paid during the period	**$ 1**	$ 45	**$ 3**	$ 52
Income taxes paid during the period	**$ 659**	$ 1,310	**$ 1,153**	$ 2,071

Consolidated Statements of Comprehensive Income (Loss)

Unaudited ($000's)		Three Months Ended June 30		Six Months Ended June 30	
		2010	2009	**2010**	2009
NET EARNINGS (LOSS)		**$ (567)**	$ 555	**$ 448**	$4,463
OTHER COMPREHENSIVE LOSS					
Foreign currency translation adjustment	Note 5	**(12)**	(384)	**(25)**	(252)
COMPREHENSIVE INCOME (LOSS)		**$ (579)**	$ 171	**$ 423**	$ 4,211

Notes to Consolidated Financial Statements

Periods ended June 30, 2010 and June 30, 2009
(Unaudited)

1. Statement Presentation

The unaudited interim consolidated financial statements were prepared by the Company on a going concern basis in accordance with Canadian generally accepted accounting principles and include the accounts of AKITA Drilling Ltd., its subsidiaries and a proportionate share of its joint ventures (consisting of contract drilling services). The accounting policies and procedures used in assembling these interim consolidated financial statements are the same as those used in preparing the audited consolidated financial statements for the year ended December 31, 2009. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and the notes thereof included in the Company's 2009 Annual Report. Due to the seasonality of the industry, the operating and financial results for the interim period covered do not necessarily reflect overall results which may be achieved in the fiscal year.

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

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

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

As at June 30, 2010, a cumulative total of 301,500 stock options are outstanding to directors and officers of the Company at exercise prices varying from $5.40 to $9.94, with expiry dates up to 2020. Of these stock options, 170,000 are exercisable for an average exercise price of $8.68.

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

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

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

3. Earnings (Loss) per Share

($Thousands)	*Three Months Ended June 30*		*Six Months Ended June 30*	
	2010	2009	**2010**	2009
Net Earnings (loss)	**$ (567)**	$ 555	**$ 448**	$ 4,463
Weighted average outstanding shares - basic	**18,162,047**	18,230,441	**18,198,922**	18,228,076
Incremental shares for diluted earnings per share calculation	**15,923**	16,637	**17,539**	13,613
Basic earnings (loss) per share($)	**$ (0.03)**	$ 0.03	**$ 0.02**	$ 0.24
Diluted earnings (loss) per share ($)	**$ (0.03)**	$ 0.03	**$ 0.02**	$ 0.24

4. Capital Disclosures

The Company has determined capital to include long-term debt ($Nil at December 31, 2009 and June 30, 2010) and share capital. The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to augment existing resources in order to meet growth requirements.

The Company manages the capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase or issue new shares, sell assets or take on long-term debt.

5. Other Comprehensive Income

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

($Thousands)	*Three Months Ended June 30*		*Six Months Ended June 30*	
	2010	2009	**2010**	2009
Accumulated comprehensive income, beginning of period	**$ (367)**	$ 132	**$ (354)**	$ -
Other comprehensive income for the period	**(12)**	(384)	**(25)**	(252)
Accumulated comprehensive income, end of period	**$ (379)**	$ (252)	**$ (379)**	$ (252)

6. Financial Instruments

The Company's financial assets and liabilities include cash and cash equivalents, term deposits, restricted cash, accounts receivable, accounts payable and accrued liabilities. During the period, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated. The Company has adopted the following classification for financial assets and liabilities:

- Cash, cash equivalents, term deposits and restricted cash are classified as "Held to Maturity"
- Accounts receivable are classified as "Loans and Receivables"
- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities".

Financial Instrument Risk Exposure and Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, foreign currency risk and potentially liquidity risk. In addition, the Company is indirectly exposed to interest rate risk since the Company is typically non-borrowing and is directly exposed to fluctuations in interest rates through its investment in bank guaranteed highly liquid investments. The Company is also indirectly exposed to commodity risk relating to commodity prices due to the industry in which it works.

Credit Risk

The credit risk associated with accounts receivable is generally considered to be low since substantially all counterparties are well established and financed oil and gas companies. Provisions have been estimated by management and included in the accounts to recognize potential bad debts.

The table of accounts receivable below shows no significant credit risk exposure in the balances outstanding at:

($Thousands)	**June 30, 2010**	June 30, 2009	December 31, 2009
Within 30 days	**$ 14,733**	$ 15,630	$ 22,987
31 to 60 days	**3,153**	2,323	4,530
61 to 90 days	**1,952**	1,981	971
Over 90 days	**2,650**	1,055	148
Allowance for doubtful accounts	**(104)**	(161)	(113)
Accounts receivable	**$ 22,384**	$ 20,828	$ 28,523

Foreign Currency Risk

The Company is exposed to changes in foreign exchange rates as revenues, capital expenditures or financial instruments may fluctuate due to changing rates. AKITA's exposure was limited substantially to its operations in the United States, which constituted 10% of its business for the six month period ended June 30, 2010 (year ended December 31, 2009 – 13%).

Liquidity Risk

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

7. Segmented Information

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

($Thousands)	Canada		United States		Total	
	2010	2009	**2010**	2009	**2010**	2009
Three Months Ended June 30						
Revenue	**$ 17,555**	$ 14,132	**$ 1,802**	$ 3,749	**$ 19,357**	$ 17,881
Net earnings (loss)	**$ (1,732)**	$ (154)	**$ 1,165**	$ 709	**$ (567)**	$ 555
Six Months Ended June 30						
Revenue	**$ 50,743**	$ 50,335	**$ 1,849**	$ 9,242	**$ 52,592**	$ 59,577
Net earnings (loss)	**$ (30)**	$ 2,454	**$ 478**	$ 2,009	**$ 448**	$ 4,463

Corporate Information

Directors

Loraine M. Charlton
Corporate Director
Calgary, Alberta

Arthur C. Eastly
Corporate Director
Calgary, Alberta

Linda A. Heathcott
President, Spruce Meadows,
President, Team Spruce Meadows Inc.
Chairman of the Board of the Company
Calgary, Alberta

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

Karl A. Ruud
President and Chief Executive Officer of the Company
Calgary, Alberta

Nancy C. Southern
Deputy Chair, President and Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited
Calgary, Alberta

Ronald D. Southern
C.C., C.B.E., B.Sc., LL.D.
Chairman, ATCO Ltd. and Canadian Utilities Limited,
Deputy Chairman of the Board of the Company
Calgary, Alberta

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

Charles W. Wilson
Corporate Director
Evergreen, Colorado

Officers

Raymond T. Coleman
Vice President, Operations

Fred O. Hensel
Vice President, Marketing for the South

Craig W. Kushner
Corporate Secretary and Human Resources Administrator

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

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

Karl A. Ruud
President and Chief Executive Officer

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Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

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

Share Symbol / TSX

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

Website

www.akita-drilling.com