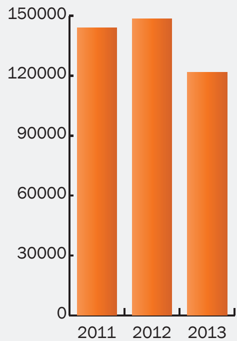
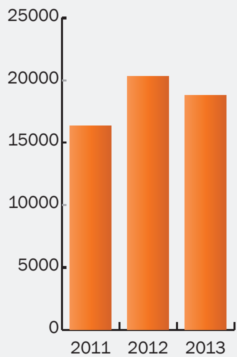
Interim report for 9 months ended September 30, 2013

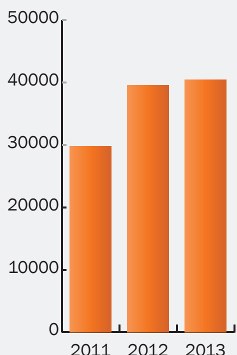
Nine Month Revenue ($000's)



Nine Month Net Income ($000's)



Nine Month Funds Flow ($000's)



Letter to the Shareowners

AKITA Drilling Ltd. increases funds flow during third quarter

AKITA Drilling Ltd.'s net income for the three months ended September 30, 2013 was $3,540,000 ($0.20 per share) on revenue of $32,945,000 compared to $4,331,000 ($0.24 per share) on revenue of $44,576,000 for the corresponding period in 2012. Funds flow from operations for the quarter ended September 30, 2013 was $11,300,000 compared to $10,804,000 in the corresponding quarter in 2012. Commencing in 2013, the Company is reporting its financial results pursuant to a new accounting standard under International Financial Reporting Standards ("IFRS"), IFRS 11, whereby assets, liabilities, revenues and expenses of joint ventures are required to be reported on an equity accounting basis. This adoption, which had no effect on net income, has resulted in a reduction of revenue amounts that would have been reported if the Company were allowed to continue to report using the proportionate consolidation basis.

Net income for the nine months ended September 30, 2013 was $18,793,000 ($1.05 basic earnings per share/$1.04 diluted earnings per share) on revenue of $121,750,000. Comparative figures for 2012 were net income of $20,327,000 ($1.13 per share) on revenue of $148,712,000. Funds flow from operations for the January to September period in 2013 was $40,406,000 compared to $39,539,000 for the comparative period in 2012.

Rig activity declined during the third quarter of 2013 to 1,347 operating days or 38.6% utilization compared to 1,529 operating days or 43.7% utilization during the corresponding quarter in 2012. This decline was attributable to weak market conditions for conventional double and triple sized rigs. However, AKITA's pad rigs continue to achieve strong utilization.

During the third quarter, the Company completed the construction of and is currently operating its latest pad rig on a multi-year contract in the oil sands. Additionally during the quarter, the Company entered into a multi-year contract to construct and operate a new ultra-deep pad rig for use in the Fort Liard Basin. Construction on this latter rig has now commenced and is anticipated to be completed by mid-2014.

In addition to strong on-going pad drilling activity, the Company is currently receiving increased interest in its conventional drilling rigs. During the fourth quarter, AKITA is anticipating operating six rigs that have been idle since the end of the first quarter and has bookings for four additional rigs in its fleet during the first quarter of 2014.

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 for the nine months ended September 30, 2013 and the audited consolidated financial statements and MD&A for the year ended December 31, 2012. References made to 2012 in this MD&A relate to the period from January 1 to September 30 unless otherwise stated. The information in this MD&A was approved by AKITA's Audit Committee on behalf of its Board of Directors on October 28, 2013 and incorporates all relevant considerations to that date.

Management has prepared this MD&A as well as the accompanying unaudited interim condensed consolidated 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 typically correlated to ongoing drilling activity. In 2013, taken on a year-to-date basis, crude oil prices (as per West Texas Intermediate prices) were approximately 2% higher than the corresponding period in 2012, while natural gas prices (as per AECO spot prices) were up approximately 45% over the same time frame. However, improvements in commodity prices for both crude oil and natural gas, thus far, continue to be insufficient to stimulate increased drilling activity.

Generally, AKITA exceeds industry average rig utilization rates as a result of positive customer relations, employee expertise, safety performance, equipment quality and drilling performance.

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

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 break-up and associated travel bans on public roads characterize the second quarter. During the third quarter of 2013 following break-up, conventional drilling activity improved, but at a more sluggish pace than has been typical for the industry in previous years. Pad rig activity has been much less affected by these seasonal patterns.

The following table summarizes third quarter and year-to-date utilization for AKITA and industry for 2013 and 2012:

Utilization rates expressed in percentages	Three Months Ended September 30		Nine Months Ended September 30	
	AKITA	Industry(1)	AKITA	Industry(1)
2013	**38.6**	40.8	**43.0**	39.3
2012	**43.7**	40.1	**49.9**	42.0

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

Increased demand for the Company's pad rigs partially offset the overall reduction in market demand for AKITA's conventional drilling rigs which occurred during the first quarter of 2013 and persisted throughout the second quarter when compared to market conditions for the corresponding period in 2012.

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

Effective January 1, 2013, the Company adopted a new accounting standard under International Financial Reporting Standards ("IFRS"), IFRS 11 "Joint Arrangements", in relation to reporting its joint venture activities. 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 GAAP 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.

Operating margin, revenue per operating day, operating and maintenance expense per operating day and operating margin per operating day are not recognized measures under IFRS. Management and certain investors may find operating margin data to be a useful measurement metric 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 expense per operating day demonstrates the 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 between conventional and pad and singles, doubles and triples can also impact these results. Readers should also be aware that AKITA includes standby revenue, construction revenue and construction costs in its determination of "per operating day" results.

Funds flow from operations is considered as 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. 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

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	2013	2012	Change	% Change	2013	2012	Change	% Change
Revenue per Interim Financial Statements [1]	33.0	44.6	(11.6)	(26%)	121.8	148.7	(26.9)	(18%)
Proportionate Share of Revenue from Joint Ventures [2]	11.9	7.9	4.0	51%	36.2	27.0	9.2	34%
Adjusted Revenue [2]	44.9	52.5	(7.6)	(14%)	158.0	175.7	(17.7)	(10%)

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	2013	2012	Change	% Change	2013	2012	Change	% Change
Operating & Maintenance Expenses per Interim Financial Statements [1]	21.6	31.7	(10.1)	(32%)	77.6	100.0	(22.4)	(22%)
Proportionate Share of Operating & Maintenance Expenses from Joint Ventures [2]	7.6	4.9	2.7	55%	21.9	16.8	5.1	30%
Adjusted Operating & Maintenance Expenses [2]	29.2	36.6	(7.4)	(20%)	99.5	116.8	(17.3)	(15%)

$Millions	Three Months Ended September 30				Nine Months Ended September 30			
	2013	2012	Change	% Change	**2013**	2012	Change	% Change
Adjusted Revenue [2]	**44.9**	52.5	(7.6)	(14%)	**158.0**	175.7	(17.7)	(10%)
Adjusted Operating & Maintenance Expenses [2]	**29.2**	36.6	(7.4)	(20%)	**99.5**	116.8	(17.3)	(15%)
Adjusted Operating Margin [1][2][3]	**15.7**	15.9	(0.2)	(1%)	**58.5**	58.9	(0.4)	(1%)

$Dollars	Three Months Ended September 30				Nine Months Ended September 30			
	2013	2012	Change	% Change	**2013**	2012	Change	% Change
Adjusted Revenue per Operating Day [2]	**33,347**	34,340	(993)	(3%)	**35,062**	33,800	1,262	4%
Adjusted Operating & Maintenance Expenses per Operating Day [2]	**21,678**	23,969	(2,291)	(10%)	**22,093**	22,471	(378)	(2%)
Adjusted Operating Margin per Operating Day [2][3]	**11,669**	10,371	1,298	13%	**12,969**	11,329	1,640	14%

(1) Revenue, operating & maintenance expenses and adjusted operating margin include the Company's rig construction for third parties. AKITA does not disclose its operating margin on rig construction activity separately for competitive reasons.

(2) 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".

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

Third Quarter Comparatives – Impact of Pad Rigs Drives Performance

During the third quarter of 2013, adjusted revenue decreased to $44,919,000 from $52,506,000 during the third quarter of 2012 as a result of weakening market conditions for conventional double and triple sized rigs which was partially offset by an increase in AKITA's pad drilling activity.

Adjusted revenue per operating day decreased to $33,347 during the third quarter of 2013 from $34,340 in the comparative quarter of 2012 due to an overall reduction in the number and type of ancillary services (such as rentals, third party and standby charges) provided during the quarter.

Adjusted operating and maintenance costs are tied to revenue and amounted to $29,200,000 ($21,678 per operating day) during the third quarter of 2013 compared to $36,649,000 ($23,969 per operating day) in the same period of the prior year. While pad rigs dominated the drilling activities during the third quarter, the actual mix of pad rigs and the reduction in the number and type of ancillary services provided resulted in lower operating costs when taken on a "per operating day" basis.

The adjusted operating margin for the Company decreased to $15,719,000 in the third quarter of 2013 from $15,857,000 during the corresponding quarter of 2012. This decrease amounted to 1% compared to a 14% reduction in adjusted revenue. The weak correlation between changes in adjusted operating margin and adjusted revenue was largely the result of a higher proportion of AKITA's drilling activities being derived from pad rigs during the current quarter compared to the corresponding period in 2012, and was affected by the specific mix of rigs that participated in drilling activities as well as the number and type of ancillary services provided. Pad rigs typically achieve higher activity levels, revenues per day and operating margins per day than conventional rigs.

Year-to-Date Comparatives – Effects of Conventional Rig Performance Offset by Impact of Pad Rigs

During the first nine months of 2013, adjusted revenue decreased to $157,992,000 from $175,691,000 during the first nine months of 2012 as a result of weakening market conditions for conventional double and triple sized rigs which was partially offset by an increase in AKITA's pad drilling activity.

Although adjusted revenue for the year-to-date period ended September 30, 2013 decreased from the comparative period in 2012, adjusted revenue per operating day increased to $35,062 during the first nine months of 2013 from $33,800 in the comparative nine month period of 2012 due to an increased proportion of the Company's revenue being generated by its pad drilling rigs and was also affected by the number and types of ancillary services provided. Pad rigs, compared to conventional drilling rigs, typically generate higher revenues on a "per operating day" basis.

Adjusted operating and maintenance costs are tied to revenue and amounted to $99,553,000 ($22,093 per operating day) during the first nine months of 2013 compared to $116,803,000 ($22,471 per operating day) in the same period of the prior year.

The adjusted operating margin for the Company decreased to $58,439,000 in the first nine months of 2013 from $58,888,000 during the corresponding year-to-date period of 2012. This reduction amounted to 1% compared to a 10% reduction in adjusted revenue. The lower decline in adjusted operating margin compared to adjusted revenue was the result of a higher proportion of AKITA's drilling activities being derived from pad rigs during the first nine months of the year compared to the corresponding period in 2012. Pad rigs typically achieve higher activity levels, revenues per day and operating margins per day than conventional rigs.

Other Comments

From time to time, the Company requires customers to make pre-payments prior to the provision of drilling services. In addition, from time to time, the Company records cost recoveries related to capital enhancements for specific customer related projects. At September 30, 2013, deferred revenue related to these activities totalled $498,000 (September 30, 2012 - $Nil).

Depreciation and Amortization Expense

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	**2013**	2012	Change	% Change	**2013**	2012	Change	% Change
Depreciation and Amortization Expense	**6.5**	5.6	0.9	16%	**19.5**	18.5	1.0	5%

The increase in depreciation and amortization expense to $6,502,000 during the third quarter of 2013 from $5,578,000 during the corresponding quarter in 2012 was largely attributable to an increase in the average cost base for AKITA's rigs which more than offset the decline in drilling activity.

Depreciation and amortization expense for the first nine months of 2013 totalled $19,524,000 compared to $18,475,000 for the corresponding period in 2012. As with the depreciation and amortization expense for the third quarter, offsetting factors of a higher average cost base for AKITA's rigs and lower drilling activity in the current year-to-date period resulted in depreciation and amortization expense being 5% higher in the first nine months of 2013 versus the comparative period in 2012. In the first nine months of 2013, drilling rig depreciation accounted for 96% of total depreciation and amortization expense (2012 - 97%).

While AKITA conducts many 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 the joint ventures themselves. Therefore, the joint ventures do not hold any property, plant, or equipment assets directly. Consequently, the depreciation balance reported above includes depreciation on assets involved in both wholly owned and joint ventured activities.

Selling and Administrative Expense

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	2013	2012	Change	% Change	2013	2012	Change	% Change
Selling & Administrative Expense per Interim Financial Statements	4.2	4.5	(0.3)	(7%)	13.3	14.2	(0.9)	(6%)
Proportionate Share of Selling & Administrative Expense from Joint Ventures [(1)]	0.1	0.1	0.0	N/A	0.4	0.4	0.0	N/A
Adjusted Selling & Administrative Expense [(1)]	4.3	4.6	(0.3)	(7%)	13.7	14.6	(0.9)	(6%)

(1) Proportionate share of selling and administrative expense from joint ventures and adjusted selling and administrative expense 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 8.7% of adjusted revenue in the first nine months of 2013 compared to 8.4% of adjusted revenue in the first nine months of 2012, largely as a result of decreased adjusted revenue in 2013. The single largest component was salaries and benefits, which accounted for 62% of these expenses (60% in 2012). 31% of the year-to-date adjusted selling and administrative expenses during the current year were incurred during the third quarter (31% in the comparative period in 2012).

Equity Income from Joint Ventures

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	2013	2012	Change	% Change	2013	2012	Change	% Change
Proportionate Share of Revenue from Joint Ventures [(1)]	11.9	7.9	4.0	51%	36.2	27.0	9.2	34%
Proportionate Share of Operating & Maintenance Expenses from Joint Ventures [(1)]	7.6	4.9	2.7	55%	21.9	16.8	5.1	30%
Proportionate Share of Selling & Administrative Expense from Joint Ventures [(1)]	0.1	0.1	0.0	N/A	0.4	0.4	0.0	N/A
Equity Income from Joint Ventures	4.2	2.9	1.3	45%	13.9	9.8	4.1	42%

(1) Proportionate share of revenue from joint ventures, proportionate share of operating & maintenance expenses from joint ventures and proportionate share of selling & administrative expense 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 AKITA's joint ventures utilize pad drilling rigs.

Other Income (Losses)

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	2013	2012	Change	% Change	2013	2012	Change	% Change
Interest Income	0.1	0.1	(0.0)	(0%)	0.2	0.3	(0.1)	(33%)
Gain on Sale of Joint Venture Interests in Rigs and Other Assets	0.2	0.0	0.2	N/A	0.2	1.1	(0.9)	(82%)
Other Gains (Losses)	(0.3)	0.0	(0.3)	N/A	(0.3)	0.0	(0.3)	N/A
Total Other Income	(0.0)	0.1	(0.1)	(100%)	0.1	1.4	(1.3)	(93%)

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income decreased to $259,000 in the first nine months of 2013 from $308,000 in the corresponding period as a result of reduced cash and short term deposit balances. The Company has undertaken significant capital expenditures related to the construction of new rigs and the conversion of conventional rigs into pad rigs, thereby reducing AKITA's cash balances.

During 2012, the Company disposed of its interests in its remaining two arctic drilling camps and other non-core assets resulting in a $1,066,000 gain. While AKITA disposed of several minor assets resulting in $184,000 in gains, the Company did not dispose of any significant assets during the first nine months of 2013.

For 2013, amounts reported as "Other Net Losses" include unrealized amounts related to forward exchange contracts purchased to provide a hedge for foreign rig equipment commitments for a rig under construction as well as an unrealized cost related to loan guarantees that the Company has provided on behalf of certain joint venture partners.

Income Tax Expense

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	2013	2012	Change	% Change	2013	2012	Change	% Change
Current Tax Expense	0.4	0.8	(0.4)	(50%)	5.0	5.6	(0.6)	(11%)
Deferred Tax Expense	1.0	0.7	0.3	43%	1.5	1.3	0.2	15%
Income Tax Expense	1.4	1.5	(0.1)	(7%)	6.5	6.9	(0.4)	(6%)

Income tax expense decreased to $6,508,000 in the first nine months of 2013 from $6,900,000 in the corresponding period in 2012 due to lower pre-tax earnings. Recent capital additions have affected the portion of income taxes that are deferred to future dates.

Net Income, Funds Flow and Net Cash From Operating Activities

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	2013	2012	Change	% Change	2013	2012	Change	% Change
Net Income	3.5	4.3	(0.8)	(19%)	18.8	20.3	(1.5)	(7%)
Funds Flow from Operations (1)	11.3	10.8	0.5	5%	40.4	39.5	0.9	2%

(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 decreased to $3,540,000 or $0.20 per Class A Non-Voting and Class B Common Share (basic and diluted) for the three month period ended September 30, 2013 from $4,331,000 or $0.24 per share (basic and diluted) in the comparative quarter of 2012. Funds flow from operations increased to $11,300,000 in

the third quarter of 2013 from $10,804,000 in the corresponding quarter in 2012. Changes in quarterly net income and funds flow from operations that occurred in the third quarter of 2013 compared to the corresponding quarter in 2012 were attributable to having lower drilling activity levels in the current quarter as well as higher depreciation and amortization costs, which were offset by higher operating margins per operating day versus the third quarter of 2012.

Net income decreased to $18,793,000 or $1.05 per Class A Non-Voting and Class B Common Share (basic) ($1.04 - diluted) for the first nine months of 2013 from $20,327,000 or $1.13 per share (basic and diluted) in the corresponding period of 2012. Funds flow from operations increased to $40,406,000 in the first nine months of 2013 from $39,539,000 in the corresponding period in 2012. As with third quarter results, comparability of net income and funds flows for these two periods were mostly affected by rig activity levels (lower in 2013 on a year-to-date basis), operating margins per operating day (higher in 2013 on a year-to-date basis) and depreciation (higher in 2013 on a year-to-date basis).

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

	Three Months Ended September 30				Nine Months Ended September 30			
$Millions	**2013**	2012	Change	% Change	**2013**	2012	Change	% Change
Funds Flow from Operations [1]	**11.3**	10.8	0.5	5%	**40.4**	39.5	0.9	2%
Change in Non-Cash Working Capital	**(1.6)**	(6.0)	4.4	73%	**12.1**	7.6	4.5	59%
Equity Income from Joint Ventures	**(4.2)**	(2.9)	(1.3)	(45%)	**(13.9)**	(9.8)	(4.1)	(42%)
Current Income Tax Expense	**0.4**	0.7	(0.3)	(43%)	**5.0**	5.6	(0.6)	(11%)
Income Tax (Paid) Recovered	**1.0**	(1.9)	2.9	153%	**(3.6)**	(8.9)	5.3	60%
Net Cash from Operating Activities	**6.9**	0.7	6.2	886%	**40.0**	34.0	6.0	18%

(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

At September 30, 2013 AKITA had 38 drilling rigs, including 10 that operated under joint ventures, (35.725 net to AKITA) compared to 38 rigs (35.025 net to AKITA) in the corresponding period of 2012. Effective July, 1, 2013, the Company added one triple sized pad rig (0.85 net to AKITA) which commenced operations during the third quarter. AKITA also decommissioned one of its wholly owned conventional double sized rigs during the third quarter of 2013.

	Three Months Ended September 30				Nine Months Ended September 30			
	2013	2012	Change	% Change	**2013**	2012	Change	% Change
Operating Days	**1,347**	1,529	(182)	(12%)	**4,506**	5,198	(692)	(13%)
Utilization Rate	**38.6%**	43.7%	(5.1)	(12%)	**43.0%**	49.9%	(6.9)	(14%)

Liquidity and Capital Resources

Cash used for capital expenditures totalled $27,892,000 during the first nine months of 2013 (2012 - $46,501,000). The most significant expenditure in 2013 related to the ongoing construction of a new pad rig. This rig commenced operations during the third quarter of 2013 under a multi-year contract. Additional capital expenditures related to routine capital items.

At September 30, 2013, AKITA's Statement of Financial Position included working capital (current assets minus current liabilities) of $33,749,000 compared to working capital of $29,557,000 at September 30, 2012 and working capital of $31,214,000 at December 31, 2012. Readers should be aware of the seasonal nature of AKITA's business and its impact on non-cash working capital balances. Typically, non-cash working capital balances reach annual maximum levels at the end of the first quarter or during the second quarter as a result of break-up and decline thereafter as a result of increased drilling activity. Non-cash working capital amounted to $11,545,000 at September 30, 2013 compared to $20,211,000 at December 31, 2012.

The Company did not purchase any shares pursuant to a Normal Course Issuer Bid during the first nine months of 2013. During the first nine months of 2012, the Company repurchased 98,306 Class A Non-Voting Shares pursuant to its Normal Course Issuer Bid.

The Company chooses to maintain a conservative Statement of Financial Position due to the cyclical nature of the industry. In addition to its cash balances, during 2011, the Company established an operating loan facility with its principal banker totalling $50,000,000, having an initial five year term. As a result of opportunities, this facility was increased to $75,000,000 during 2012 and the term was also extended for an additional year. 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 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 accessed this facility during the second quarter of 2012 on a short-term basis and repaid the amount borrowed prior to June 30, 2012. The Company did not otherwise access this facility in 2012 or during the first nine months of 2013.

During the third quarter of 2013, the Company was awarded a contract to construct and operate an ultra deep capacity pad rig on a long-term basis. The Company sourced approximately $16 Million of materials for this rig from non-Canadian suppliers. In order to minimize the risk of currency translation adjustments, AKITA purchased forward currency contracts totalling $13 Million. These contracts expire during the second quarter of 2014.

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 opportunities.

The Company manages its capital structure and makes adjustments in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase or issue new shares, sell assets or utilize debt. Since 1999, dividend rates have increased seven times with no decreases. The last dividend increase was declared on March 6, 2013.

During the 10 year period since 2003, AKITA has repurchased 898,543 Class A Non-Voting shares through Normal Course Issuer bids and issued 190,000 Class A Non-Voting shares upon exercise of stock options.

The Company had seven rigs under multi-year contracts at September 30, 2013. Of these contracts, five are anticipated to expire in 2014, one in 2016 and one in 2018.

During 2011, the Company guaranteed bank loans made to joint venture partners totalling $2,700,000 for a period of four years. During the third quarter of 2013, the Company guaranteed bank loans made to joint venture partners

totalling $2,812,000 for a period of four years. The Company has provided assignments of monies on deposit totalling $5,950,000 with respect to these loans. These funds have been classified as "restricted cash" on the Statement of Financial Position. The Company's security from its partners for these guarantees includes interests in specific rig assets.

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
2013				
Revenue	**60,761**	**28,044**	**32,945**	
Net income	**12,495**	**2,757**	**3,540**	
Earnings per share (basic and diluted) ($)	**0.70**	**0.15**	**0.20**	
Funds flow from operations	**19,985**	**9,121**	**11,300**	
Cash flow from operations	**6,356**	**26,725**	**6,932**	
2012				
Revenue	68,177	35,959	44,576	54,728
Net income	13,904	2,092	4,331	8,445
Earnings per share (basic and diluted) ($)	0.77	0.12	0.24	0.47
Funds flow from operations	20,366	8,368	10,804	19,873
Cash flow from operations	5,142	23,367	742	12,320
2011				
Revenue (1)	57,444	31,651	54,874	55,965
Net income	7,952	1,498	6,926	6,977
Earnings per share (basic and diluted) ($)	0.44	0.08	0.38	0.39
Funds flow from operations	13,712	3,239	12,825	13,104
Cash flow from (used in) operations (1)	6,945	15,744	(1,989)	13,496

(1) During 2011 and prior years, AKITA reported its joint venture activities using the proportionate consolidation method of accounting which is not necessarily comparable to the equity method of accounting adopted pursuant to IFRS 11.

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 oil and gas prices and changes in the exploration and development budgets of its customers.

Management is anticipating that AKITA's 17 pad rigs will continue to be the most active rig class in the Company's fleet. All seven of AKITA's rigs that are under multi-year contracts are pad rigs. Additionally, most of AKITA's remaining pad rigs are working on multi-well arrangements and are booked until spring break-up or longer.

AKITA has five deep and ultra-deep capacity conventional triples in its fleet. Demand for these rigs has been weak for the second and third quarters of this year. However, the Company is currently receiving a number of inquiries regarding this rig category and has work that will begin in the fourth quarter of the current year for three of these rigs. In the longer term, management anticipates that this rig category will be in demand for the delineation and development of select natural gas resource plays.

Demand is expected to remain high for three of AKITA's four conventional heavy double sized rigs. The fourth rig in this category was deployed to the Northwest Territories during this past winter for a drilling project and is not expected to become active again until after the upcoming winter.

While AKITA's eight shallow capacity singles had steady activity during the first quarter of 2013, these rigs had limited opportunities during the second and third quarters. Management anticipates limited demand for rigs in this size category until the next winter drilling season at which point all rigs in this category are booked.

AKITA's four shallow capacity doubles were less active during the first nine months of 2013 compared to the comparative period in 2012. Management anticipates continuing lower demand for this class of rigs for the balance of this year. Two of these rigs are currently booked for the upcoming winter drilling season.

AKITA currently has one ultra-deep pad rig under construction with completion scheduled for mid-2014. Once completed, this rig will operate under a multi-year contract.

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 September 30, 2013, management evaluated, under the supervision of and the participation of the President and Chief Executive Officer (the "CEO") and the Vice President, Finance and 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 September 30, 2013.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR was effective as at September 30, 2013.

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

Interim Consolidated Statements of Financial Position

Unaudited $Thousands		September 30, 2013	September 30, 2012	December 31, 2012	January 1, 2012
			Note 3	Note 3	Note 3
Assets					
Current Assets					
Cash and cash equivalents		$ 22,204	$ 10,807	$ 11,003	$ 14,553
Term deposits		-	2,500	-	9,500
Accounts receivable	Note 5	27,695	46,450	60,004	45,427
Income taxes recoverable		-	505	4,487	-
Prepaid expenses and other		281	410	159	413
		50,180	60,672	75,653	69,893
Non-current Assets					
Restricted cash	Note 6	5,950	3,000	3,000	3,000
Other long term assets		294	187	320	200
Investment property		583	607	601	626
Investments in joint ventures	Note 7	8,142	4,165	4,825	5,672
Property, plant and equipment	Note 8	213,207	194,719	204,969	166,812
Total Assets		$ 278,356	$ 263,350	$ 289,368	$ 246,203
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities		$ 14,535	$ 29,858	$ 43,089	$ 26,623
Deferred revenue		498	-	95	146
Dividends payable	Note 13	-	1,257	1,255	1,262
Income taxes payable		1,398	-	-	3,269
		16,431	31,115	44,439	31,300
Non-current Liabilities					
Deferred income taxes	Note 9	20,366	13,423	18,886	12,151
Pension liability		2,613	2,276	2,348	1,982
Financial guarantee contracts	Note 6	123	-	-	-
Total Liabilities		39,533	46,814	65,673	45,433
Shareholder's Equity					
Class A and Class B shares	Note 10	23,611	23,194	23,186	23,308
Contributed surplus		3,281	2,983	3,060	2,758
Accumulated other comprehensive income		(21)	-	(21)	-
Retained earnings		211,952	190,359	197,470	174,704
Total Equity		238,823	216,536	223,695	200,770
Total Liabilities and Equity		$ 278,356	$ 263,350	$ 289,368	$ 246,203

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

Interim Consolidated Statements of Net Income and Comprehensive Income

Unaudited $Thousands		Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
			Note 3		Note 3
Revenue		$ 32,945	$ 44,576	$ 121,750	$ 148,712
Costs and expenses					
Operating and maintenance		21,589	31,756	77,638	100,037
Depreciation and amortization		6,502	5,578	19,524	18,475
Selling and administrative		4,163	4,475	13,322	14,237
Total costs and expenses		32,254	41,809	110,484	132,749
Revenue less costs and expenses		691	2,767	11,266	15,963
Equity income from joint ventures		4,234	2,938	13,948	9,869
Other income (losses)					
Interest income		96	100	259	308
Interest expense		(27)	(1)	(81)	(3)
Gain on sale of joint venture interests in rigs and other assets		183	5	184	1,066
Net other gains (losses)		(273)	1	(275)	24
Total other income		(21)	105	87	1,395
Income before income taxes		4,904	5,810	25,301	27,227
Income taxes	Note 9	1,364	1,479	6,508	6,900
Net income and comprehensive income for the period attributable to shareholders		3,540	4,331	18,793	20,327
Earnings per Class A and Class B Share	Note 12				
Basic		$ 0.20	$ 0.24	$ 1.05	$ 1.13
Diluted		$ 0.20	$ 0.24	$ 1.04	$ 1.13

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

Interim Consolidated 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	Retained Earnings	Total Equity
						Note 3	
Balance at December 31, 2011	$ 21,942	$ 1,366	$ 23,308	$ 2,758	-	$ 174,704	$ 200,770
Net income for the period	-	-	-	-	-	20,327	20,327
Shares repurchased	(132)	-	(132)	-	-	(891)	(1,023)
Stock options exercised	18	-	18	-	-	-	18
Stock options charged to expense	-	-	-	225	-	-	225
Dividends	-	-	-	-	-	(3,781)	(3,781)
Balance at September 30, 2012	$ 21,828	$ 1,366	$ 23,194	$ 2,983	$ -	$ 190,359	$ 216,536
Net income for the period	-	-	-	-	-	8,428	8,428
Change in accounting policy IAS 19 (Note 3)	-	-	-	-	(21)	-	(21)
Shares repurchased	(8)	-	(8)	-	-	(60)	(68)
Stock options charged to expense	-	-	-	77	-	-	77
Dividends	-	-	-	-	-	(1,257)	(1,257)
Balance at December 31, 2012	$ 21,820	$ 1,366	$ 23,186	$ 3,060	$ (21)	$ 197,470	$ 223,695
Net income for the period	-	-	-	-	-	**18,793**	**18,793**
Shares repurchased	**425**	-	**425**	-	-	-	**425**
Stock options charged to expense	-	-	-	**221**	-	-	**221**
Dividends	-	-	-	-	-	**(4,311)**	**(4,311)**
Balance at September 30, 2013	**$ 22,245**	**$ 1,366**	**$ 23,611**	**$ 3,281**	**$ (21)**	**$ 211,952**	**$ 238,823**

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

Interim Consolidated Statements of Cash Flows

Unaudited $Thousands		Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
			Note 3		Note 3
Operating Activities					
Net income		$ 3,540	$ 4,331	$ 18,793	$ 20,327
Non-cash items included in net income:					
Depreciation and amortization	Note 8	6,502	5,578	19,524	18,475
Deferred income taxes	Note 9	931	721	1,480	1,272
Expense for defined benefit pension plan		93	102	277	306
Stock options charged to expense	Note 11	122	77	221	225
(Gain) loss on sale of joint venture interests in rigs and other assets		(183)	(5)	(184)	(1,066)
Unrealized foreign currency loss	Note 5	172	-	172	-
Unrealized loss on financial guarantee contracts	Note 6	123	-	123	-
Funds flow from operations		11,300	10,804	40,406	39,539
Change in non-cash working capital:					
Accounts receivable		(2,756)	(14,596)	32,309	(1,023)
Prepaid expenses and other		304	335	(122)	3
Income taxes recoverable		168	(505)	4,487	(505)
Accounts payable and accrued liabilities		629	8,744	(24,907)	9,247
Deferred revenue		127	-	403	(146)
Net change in non-cash working capital		(1,528)	(6,022)	12,170	7,576
Equity income from joint ventures	Note 7	(4,234)	(2,938)	(13,948)	(9,869)
Pension benefits paid		(4)	(4)	(12)	(12)
Interest paid		-	(2)	(1)	(3)
Income taxes expense - current	Note 9	433	759	5,028	5,628
Income taxes paid		965	(1,855)	(3,630)	(8,897)
Net cash from operating activities		6,932	742	40,013	33,962
Investing Activities					
Capital expenditures	Note 8	(12,755)	(20,064)	(27,892)	(46,501)
Change in non-cash working capital related to capital		(867)	1,845	(5,254)	(6,014)
Net distributions to investments in joint ventures	Note 7	5,419	1,969	10,631	11,376
Change in cash restricted for financial guarantee contracts	Note 6	(2,950)	-	(2,950)	-
Change in term deposits		-	-	-	7,000
Proceeds on sale of joint venture interests in rigs and other assets		244	108	357	1,217
Net cash used in investing activities		(10,909)	(16,142)	(25,108)	(32,922)
Financing Activities					
Dividends paid		(1,437)	(1,257)	(4,129)	(3,781)
Proceeds received on exercise of stock options		-	18	425	18
Repurchase of share capital		-	(641)	-	(1,023)
Net cash used in financing activities		(1,437)	(1,880)	(3,704)	(4,786)
Increase (decrease) in cash and cash equivalents		(5,414)	(17,280)	11,201	(3,746)
Cash and cash equivalents, beginning of period		27,618	28,087	11,003	14,553
Cash and Cash Equivalents, End of Period		$ 22,204	$ 10,807	$ 22,204	$ 10,807

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

Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2013 and September 30, 2012
(Unaudited)

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company" or "AKITA") provide contract drilling services, primarily to the oil and gas industry and in some circumstances to the mining industry. At September 30, 2013, the Company owned and operated 38 drilling rigs (35.725 net) in Canada.

The Company conducts certain rig operations via joint ventures with aboriginal 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 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 900, 311 – 6th 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 nine months ended September 30, 2013 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, 2012, 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 October 28, 2013, 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 2012 Annual Report, except as described below.

Financial Instruments

During the third quarter of 2013 the Company entered into a forward exchange contract 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 has not

designated 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 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.

Financial Guarantee Contracts

The Company guaranteed 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. The fair value measurement of the financial guarantee benefit has a fair value hierarchy of Level 2.

Changes in Accounting Policies

The Company has adopted the following new and revised standards, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

a. IFRS 11, "Joint Arrangements"
IFRS 11 supersedes IAS 31, "Interests in Joint Ventures", and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, "Investments in Associates and Joint Ventures" (amended in 2011).

The Company has reclassified its investment in its joint ventures from jointly controlled entities to joint ventures. The Company's interests in its joint ventures were previously accounted for using the proportionate consolidation method and now are being accounted for using the equity method. As a result of this change in accounting policy, the investments in joint ventures at January 1, 2012 have been recognized at the net carrying amount of the assets and liabilities of the joint ventures previously proportionately consolidated by the Company. The Company assessed whether the investments were impaired as at January 1, 2012 and determined no impairment existed. Subsequent to January 1, 2012, the Company has accounted for its investments using the equity method of accounting.

The adjustments for each financial statement line item affected are presented in the tables below.

b. IAS 19, "Employee Benefits"
IAS 19 (Revised 2011) amends certain accounting requirements for defined benefit pension plans and termination benefits. IAS 19 (Revised 2011) requires the net defined benefit liability (asset) to be recognized on the Statement of Financial Position without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income. The Company also continues to recognize interest expense (income) on net post-employment benefits liabilities (assets) in finance expense (income) in the Consolidate Statement of Net Income and Comprehensive Income.

The Company adopted these amendments retrospectively and adjusted its opening equity as at January 1, 2012 to recognize previously unrecognized past service costs and adjustments to the asset ceiling for post-employment plans. The post-employment benefits' finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit pension plans.

The adjustments for each financial statement line item affected are presented in the tables below.

c. IAS 1, “Presentation of Financial Statements”
The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

d. IFRS 10, “Consolidated Financial Statements”
IFRS 10 replaces the guidance on control and consolidation in IAS 27, “Consolidated and Separate Financial Statements”, and SIC-12, “Consolidation – Special Purpose Entities”. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

e. IFRS 13, “Fair Value Measurement”
IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The following tables present the reconciliation of the impact of the accounting policy changes to the interim financial statements previously presented to the interim financial statements prepared under the new and revised financial reporting standards.

i. Reconciliation of Financial Position at January 1, 2012 - date of transition;
ii. Reconciliation of Financial Position at September 30, 2012;
iii. Reconciliation of Financial Position at December 31, 2012;
iv. Reconciliation of Net Income and Comprehensive Income for the three months ended September 30, 2012;
v. Reconciliation of Net Income and Comprehensive Income for the nine months ended September 30, 2012;
vi. Reconciliation of Cash Flows for the three months ended September 30, 2012; and
vii. Reconciliation of Cash Flows for the nine months ended September 30, 2012.

Reconciliation of Financial Position January 1, 2012

$Thousands	Before Accounting Policy Changes	IFRS 11 (1)	IAS 19 (2)	After Accounting Policy Changes
	Adjustments for changes in accounting policies			
Assets				
Current Assets				
Cash and cash equivalents	$ 18,228	$ (3,675)	$ -	**$ 14,553**
Term deposits	9,500	-	-	**9,500**
Accounts receivable	48,351	(2,924)	-	**45,427**
Prepaid expenses and other	413	-	-	**413**
	76,492	(6,599)	-	**69,893**
Non-current Assets				
Restricted cash	3,000	-	-	**3,000**
Other long term assets	200	-	-	**200**
Investment property	626	-	-	**626**
Investments in joint ventures	-	5,672	-	**5,672**
Property, plant and equipment	166,812	-	-	**166,812**
Total Assets	$ 247,130	$ (927)	$ -	**$ 246,203**
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 27,550	$ (927)	$ -	**$ 26,623**
Deferred revenue	146	-	-	**146**
Dividends payable	1,262	-	-	**1,262**
Income taxes payable	3,269	-	-	**3,269**
	32,227	(927)	-	**31,300**
Non-current Liabilities				
Deferred income taxes	12,264	-	(113)	**12,151**
Pension liability	1,535	-	447	**1,982**
Total Liabilities	46,026	(927)	334	**45,433**
Shareholders' Equity				
Class A and Class B shares	23,308	-	-	**23,308**
Contributed surplus	2,758	-	-	**2,758**
Retained earnings	175,038	-	(334)	**174,704**
Total Equity	201,104	-	(334)	**200,770**
Total Equity and Liabilities	$ 247,130	$ (927)	$ -	**$ 246,203**

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Financial Position September 30, 2012

$Thousands	Before Accounting Policy Changes	IFRS 11 (1)	IAS 19 (2)	After Accounting Policy Changes
	Adjustments for changes in accounting policies			
Assets				
Current Assets				
Cash and cash equivalents	$ 13,620	$ (2,813)	$ -	**$ 10,807**
Term deposits	2,500	-	-	**2,500**
Accounts receivable	49,072	(2,622)	-	**46,450**
Income tax recoverable	505	-	-	**505**
Prepaid expenses and other	410	-	-	**410**
	66,107	(5,435)	-	**60,672**
Non-current Assets				
Restricted cash	3,000	-	-	**3,000**
Other long term assets	187	-	-	**187**
Investment property	607	-	-	**607**
Investments in joint ventures	-	4,165	-	**4,165**
Property, plant and equipment	194,719	-	-	**194,719**
Total Assets	$ 264,620	$ (1,270)	$ -	**$ 263,350**
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 31,128	$ (1,270)	$ -	**$ 29,858**
Dividends payable	1,257	-	-	**1,257**
	32,385	(1,270)	-	**31,115**
Non-current Liabilities				
Deferred income taxes	13,536	-	(113)	**13,423**
Pension liability	1,829	-	447	**2,276**
Total Liabilities	47,750	(1,270)	334	**46,814**
Shareholders' Equity				
Class A and Class B shares	23,194	-	-	**23,194**
Contributed surplus	2,983	-	-	**2,983**
Retained earnings	190,693	-	(334)	**190,359**
Total Equity	216,870	-	(334)	**216,536**
Total Equity and Liabilities	$ 264,620	$ (1,270)	$ -	**$ 263,350**

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Financial Position December 31, 2012

	Adjustments for changes in accounting policies			
$Thousands	Before Accounting Policy Changes	IFRS 11 (1)	IAS 19 (2)	**After Accounting Policy Changes**
Assets				
Current Assets				
Cash and cash equivalents	$ 13,285	$ (2,282)	$ -	**$ 11,003**
Accounts receivable	66,116	(6,112)	-	**60,004**
Income taxes recoverable	4,487	-	-	**4,487**
Prepaid expenses and other	216	(57)	-	**159**
	84,104	(8,451)	-	**75,653**
Non-current Assets				
Restricted cash	3,000	-	-	**3,000**
Other long term assets	320	-	-	**320**
Investment property	601	-	-	**601**
Investments in joint ventures	-	4,825	-	**4,825**
Property, plant and equipment	204,969	-	-	**204,969**
Total Assets	$ 292,994	$ (3,626)	$ -	**$ 289,368**
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 44,669	$ (1,580)	$ -	**$ 43,089**
Deferred revenue	2,141	(2,046)	-	**95**
Dividends payable	1,255	-	-	**1,255**
	48,065	(3,626)	-	**44,439**
Non-current Liabilities				
Deferred income taxes	18,989	-	(103)	**18,886**
Pension liability	1,942	-	406	**2,348**
Total Liabilities	68,996	(3,626)	303	**65,673**
Shareholders' Equity				
Class A and Class B shares	23,186	-	-	**23,186**
Contributed surplus	3,060	-	-	**3,060**
Accumulated other comprehensive income	-	-	(21)	**(21)**
Retained earnings	197,752	-	(282)	**197,470**
Total Equity	223,998	-	(303)	**223,695**
Total Equity and Liabilities	$ 292,994	$ (3,626)	$ -	**$ 289,368**

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Net Income and Comprehensive Income
For the Three Months ended September 30, 2012

$Thousands except per share amounts	Before Accounting Policy Changes	IFRS 11 (1)	IAS 19 (2)	After Accounting Policy Changes
	Adjustments for changes in accounting policies			
Revenue	$ 52,111	$ (7,535)	$ -	**$ 44,576**
Costs and expenses				
Operating and maintenance	36,255	(4,499)	-	**31,756**
Depreciation and amortization	5,578	-	-	**5,578**
Selling and administrative	4,577	(102)	-	**4,475**
Total costs and expenses	46,410	(4,601)	-	**41,809**
Revenue less costs and expenses	5,701	(2,934)	-	**2,767**
Equity income from joint ventures	-	2,938	-	**2,938**
Other income (losses)				
Interest income	104	(4)	-	**100**
Interest expense	(1)	-	-	**(1)**
Gain on sale of joint venture interests in rigs and other assets	5	-	-	**5**
Net other gains	1	-	-	**1**
Total other income	109	(4)	-	**105**
Income before income taxes	5,810	-	-	**5,810**
Income taxes	1,479	-	-	**1,479**
Net income and comprehensive income for the period attributable to shareholders	$ 4,331	$ -	$ -	**$ 4,331**
Earnings per Class A and Class B Share				
Basic	$ 0.24	$ -	$ -	**$ 0.24**
Diluted	$ 0.24	$ -	$ -	**$ 0.24**

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Net Income and Comprehensive Income
For the Nine Months ended September 30, 2012

	Adjustments for changes in accounting policies			
$Thousands except per share amounts	Before Accounting Policy Changes	IFRS 11 (1)	IAS 19 (2)	**After Accounting Policy Changes**
Revenue	$ 174,669	$ (25,957)	$ -	**$ 148,712**
Costs and expenses				
Operating and maintenance	115,782	(15,745)	-	**100,037**
Depreciation and amortization	18,475	-	-	**18,475**
Selling and administrative	14,597	(360)	-	**14,237**
Total costs and expenses	148,854	(16,105)	-	**132,749**
Revenue less costs and expenses	25,815	(9,852)	-	**15,963**
Equity income from joint ventures	-	9,869	-	**9,869**
Other income (losses)				
Interest income	325	(17)	-	**308**
Interest expense	(3)	-	-	**(3)**
Gain on sale of joint venture interests in rigs and other assets	1,066	-	-	**1,066**
Net other gains	24	-	-	**24**
Total other income	1,412	(17)	-	**1,395**
Income before income taxes	27,227	-	-	**27,227**
Income taxes	6,900	-	-	**6,900**
Net income and comprehensive income for the period attributable to shareholders	$ 20,327	$ -	$ -	**$ 20,327**
Earnings per Class A and Class B Share				
Basic	$ 1.13	$ -	$ -	**$ 1.13**
Diluted	$ 1.13	$ -	$ -	**$ 1.13**

(1) IFRS 11 "Joint Arrangements"

(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Cash Flows
For the Three Months ended September 30, 2012

	Adjustments for changes in accounting policies			
$Thousands	Before Accounting Policy Changes	IFRS 11 (1)	IAS 19 (2)	After Accounting Policy Changes
Operating Activities				
Net income and comprehensive income	$ 4,331	$ -	$ -	$ 4,331
Non-cash items included in net income and comprehensive income:				
Depreciation and amortization	5,578	-	-	5,578
Deferred income taxes	721	-	-	721
Expense for defined benefit pension plan	102	-	-	102
Stock options charged to expense	77	-	-	77
Gain on sale of joint venture interests in rigs and other assets	(5)	-	-	(5)
Funds flow from operations	10,804	-	-	10,804
Change in non-cash working capital:				
Accounts receivable	(15,278)	682	-	(14,596)
Prepaid expenses and other	335	-	-	335
Income taxes recoverable	(505)	-	-	(505)
Accounts payable and accrued liabilities	9,178	(434)	-	8,744
	(6,270)	248	-	(6,022)
	4,534	248	-	4,782
Equity income from joint ventures	-	(2,938)	-	(2,938)
Pension benefits paid	(4)	-	-	(4)
Interest paid	(2)	-	-	(2)
Income taxes expense - current	758	1	-	759
Income taxes paid	(1,854)	(1)	-	(1,855)
Net cash from operating activities	3,432	(2,690)	-	742
Investing Activities				
Capital expenditures	(20,064)	-	-	(20,064)
Change in non-cash working capital related to capital	1,845	-	-	1,845
Net distributions to investments in joint ventures	-	1,969	-	1,969
Proceeds on sale of joint venture interests in rigs and other assets	107	1	-	108
Net cash used in investing activities	(18,112)	1,970	-	(16,142)
Financing Activities				
Dividends paid	(1,257)	-	-	(1,257)
Proceeds received on exercise of stock options	18	-	-	18
Repurchase of share capital	(641)	-	-	(641)
Net cash used in financing activities	(1,880)	-	-	(1,880)
Decrease in cash and cash equivalents	(16,560)	(720)	-	(17,280)
Cash and cash equivalents, beginning of period	30,180	(2,093)	-	28,087
Cash and Cash Equivalents, End of Period	$ 13,620	$ (2,813)	$ -	$ 10,807

(1) IFRS 11 "Joint Arrangements"
(2) IAS 19 (Revised 2011) "Employee Benefits"

Reconciliation of Cash Flows
For the Nine Months ended September 30, 2012

$Thousands	Before Accounting Policy Changes	IFRS 11 (1)	IAS 19 (2)	After Accounting Policy Changes
	Adjustments for changes in accounting policies			
Operating Activities				
Net income and comprehensive income	$ 20,327	$ -	$ -	$ 20,327
Non-cash items included in net income and comprehensive income:				
Depreciation and amortization	18,475	-	-	18,475
Deferred income taxes	1,272	-	-	1,272
Expense for defined benefit pension plan	306	-	-	306
Stock options charged to expense	225	-	-	225
Gain on sale of joint venture interests in rigs and other assets	(1,066)	-	-	(1,066)
Funds flow from operations	39,539	-	-	39,539
Change in non-cash working capital:				
Accounts receivable	(721)	(302)	-	(1,023)
Prepaid expenses and other	3	-	-	3
Income taxes recoverable	(505)	-	-	(505)
Accounts payable and accrued liabilities	9,590	(343)	-	9,247
Deferred revenue	(146)	-	-	(146)
	(8,221)	(645)	-	7,576
	47,760	(645)	-	47,115
Equity income from joint ventures	-	(9,869)	-	(9,869)
Pension benefits paid	(12)	-	-	(12)
Interest paid	(3)	-	-	(3)
Income taxes expense - current	5,628	-	-	5,628
Income taxes paid	(8,897)	-	-	(8,897)
Net cash from operating activities	44,476	(10,514)	-	33,962
Investing Activities				
Capital expenditures	(46,501)	-	-	(46,501)
Change in non-cash working capital related to capital	(6,014)	-	-	(6,014)
Net distributions to investments in joint ventures	-	11,376	-	11,376
Change in term deposits	7,000	-	-	7,000
Proceeds on sale of joint venture interests in rigs and other assets	1,217	-	-	1,217
Net cash used in investing activities	(44,298)	11,376	-	(32,922)
Financing Activities				
Dividends paid	(3,781)	-	-	(3,781)
Proceeds received on exercise of stock options	18	-	-	18
Repurchase of share capital	(1,023)	-	-	(1,023)
Net cash used in financing activities	(4,786)	-	-	(4,786)
Increase (decrease) in cash and cash equivalents	(4,608)	862	-	(3,746)
Cash and cash equivalents, beginning of period	18,228	(3,675)	-	14,553
Cash and Cash Equivalents, End of Period	$ 13,620	$ (2,813)	$ -	$ 10,807

(1) IFRS 11 "Joint Arrangements"
(2) IAS 19 (Revised 2011) "Employee Benefits"

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.

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

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 nine months ended September 30, 2013, drilling rig depreciation could be either increased or decreased by $1,874,000 (2012 - $1,782,000). 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.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company measures and recognizes an impairment loss calculated as the difference between the amortized cost of the asset and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by this amount. AKITA's asset impairment estimates do not have any effect on the changes to the financial condition for the Company, as any asset write-down would be a non-cash item. However, total assets and results of operations including net income and comprehensive income could be either overstated or understated as a result of projections of discounted future cash flows.

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 $2,613,000 at September 30, 2013 (September 30, 2012 - $2,276,000). 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 and comprehensive 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 2013, a key assumption relates to the use of a 4.0% 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. This pension is an unfunded liability of the Company.

The Company makes assumptions relating to the measurement of deferred income taxes, including future tax rates, and the timing of reversals of timing differences utilizing 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 and comprehensive income could be either understated or overstated.

5. Financial Instruments

Operating Loan Facility

During 2011, the Company established an operating loan facility totaling $50,000,000 with an initial five year term with its principal banker. 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. During the fourth quarter of 2012, the Company increased its operating loan facility to $75,000,000 and extended its term for an additional year until 2017. Security for this facility includes a General Security Agreement covering all current and future assets.

In accordance with its loan facility, the Company is required to ensure that the following covenants are met:

- the ratio of Funded Debt to EBITDA shall not exceed 3.00:1.00 calculated on a trailing 12 month basis;
- the ratio of EBITDA to Interest Expense shall not be less than 3.00:1.00 calculated on a trailing 12 month basis;
- the ratio of Tangible Assets to Funded Debt shall not be less than 2.25:1.00.

EBITDA is not a recognized measure under IFRS. EBITDA is defined as net income from continuing operations before interest expense, current tax expense, depreciation and amortization. Tangible Assets are all accounts receivable, inventory, unrestricted cash, term deposits and cash equivalents and the net book value of property, plant and equipment.

The Company accessed this facility during the second quarter of 2012 on a short-term basis and repaid the amount borrowed prior to June 30, 2012. The Company did not access this facility during the first nine months of 2013.

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 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 low since substantially all counterparties are well-established and financed 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.

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

$Thousands	**September 30, 2013**	September 30, 2012	December 31, 2012
Within 30 days	**$ 24,724**	$ 32,676	$ 48,585
31 to 60 days	**2,705**	9,911	7,162
61 to 90 days	**259**	3,201	3,293
Over 90 days	**110**	769	1,074
Allowance for doubtful accounts	**(103)**	(107)	(110)
Accounts receivable	**$ 27,695**	$ 46,450	$ 60,004

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. To mitigate this risk the Company entered into foreign exchange forward contracts that will mature in the second quarter of 2014. At September 30, 2013, the Company had outstanding contracts to buy a total of US$13 Million at an average rate of Canadian dollars 1.0499 to the US dollar. At September 30, 2013, these contracts were marked to market resulting in an unrealized foreign exchange loss of $172,000 that was recognized in the Consolidated Statement of Net Income and Comprehensive Income and has been classified on the Statement of Financial Position as an accrued liability.

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At September 30, 2013, September 30, 2012 and December 31, 2012, this risk was limited by having substantial cash balances, strong cash flows from operations and a banking facility sufficient to meet all current liabilities. All working capital amounts at September 30 and December 31 are due within one year.

6. Restricted Cash

$Thousands	September 30, 2013	September 30, 2012	December 31, 2012
Balance held in bank liquid deposit instruments	$ 5,950	$ 3,000	$ 3,000

During 2011, the Company guaranteed bank loans made to joint venture partners totaling $2,700,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $3,000,000 with respect to these loans.

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 $2,950,000 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 partners whereby rig assets are jointly owned. Currently there are 22 different aboriginal groups with equity investments 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 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 of accounting. 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 Investments in Joint Ventures

$Thousands	Investments in Joint Ventures
Balance as at December 31, 2011	$ 5,672
Net income for the nine month period ended September 30, 2012	9,869
Distributions for the nine month period ended September 30, 2012	(11,595)
Disposition of joint venture interest	219
Balance as at September 30, 2012	4,165
Net income for the three month period ended December 31, 2012	4,294
Distributions for the three month period ended December 31, 2012	(3,634)
Balance as at December 31, 2012	4,825
Net income for the nine month period ended September 30, 2013	13,948
Distributions for the nine month period ended September 30, 2013	(10,631)
Balance as at September 30, 2013	**$ 8,142**

Summarized Joint Venture Financial Information

This summarized financial information is the aggregate of the joint ventures' IFRS financial statements. AKITA recognizes its proportionate share of the Joint Ventures' financial results.

Summarized Joint Venture Financial Information

$Thousands	September 30, 2013	September 30, 2012	December 31, 2012
Cash and cash equivalents	$ 9,014	$ 4,059	$ 3,030
Other current assets	8,728	7,235	8,408
Total Assets	17,742	11,294	11,438
Current liabilities	6,404	4,859	3,190
Non-current liabilities	1,029	-	1,400
Total Liabilities	7,433	4,859	4,590
Net Assets	$ 10,309	$ 6,435	$ 6,848
Revenue	$ 47,120	$ 42,362	$ 57,637
Interest income	$ 71	$ 30	$ 54
Net income and comprehensive income	$ 17,591	$ 14,726	$ 20,661

8. Property, Plant and Equipment

Cost $Thousands		Land and Buildings		Drilling Rigs		Other		Total
Balance as at December 31, 2011	$	4,240	$	307,148	$	6,199	$	317,587
Additions		-		45,741		760		46,501
Disposals		-		(6,917)		-		(6,917)
Balance as at September 30, 2012		4,240		345,972		6,959		357,171
Additions		-		18,217		638		18,855
Disposals		-		(4,527)		(143)		(4,670)
Balance as at December 31, 2012		4,240		359,662		7,454		371,356
Additions		-		27,134		758		27,892
Disposals		-		(3,713)		(606)		(4,319)
Balance as at September 30, 2013	**$**	**4,240**	**$**	**383,083**	**$**	**7,606**	**$**	**394,929**

Accumulated Depreciation $Thousands		Land and Buildings		Drilling Rigs		Other		Total
Balance as at December 31, 2011	$	986	$	145,348	$	4,441	$	150,775
Disposals		-		(6,765)		-		(6,765)
Depreciation expense		71		17,825		546		18,442
Balance as at September 30, 2012		1,057		156,408		4,987		162,452
Disposals		-		(1,801)		(119)		(1,920)
Depreciation expense		23		5,632		200		5,855
Balance as at December 31, 2012		1,080		160,239		5,068		166,387
Disposals		-		(3,539)		(606)		(4,145)
Depreciation expense		66		18,738		676		19,480
Balance as at September 30, 2013	**$**	**1,146**	**$**	**175,438**	**$**	**5,138**	**$**	**181,722**

Net Book Value $Thousands		Land and Buildings		Drilling Rigs		Other		Total
As at December 31, 2011	$	3,254	$	161,800	$	1,758	$	166,812
As at September 30, 2012	$	3,183	$	189,564	$	1,972	$	194,719
As at December 31, 2012	$	3,160	$	199,423	$	2,386	$	204,969
As at September 30, 2013	**$**	**3,094**	**$**	**207,645**	**$**	**2,468**	**$**	**213,207**

As at September 30, 2013, the Company had $10,522,000 in Property, Plant and Equipment that was not being depreciated as these assets were under construction (September 30, 2012 - $30,756,000 and December 31, 2012 – $12,256,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $44,000 for the nine month period ended September 30, 2013 (September 30, 2012- $33,000 and December 31, 2012 – $45,000).

9. Income Taxes

Income taxes are comprised of the following:

	Three Months Ended				Nine Months Ended			
$Thousands		**September 30, 2013**		September 30, 2012		**September 30, 2013**		September 30, 2012
Current tax expense	**$**	**432**	$	758	**$**	**5,028**	$	5,628
Deferred tax expense		**932**		721		**1,480**		1,272
Total income taxes	**$**	**1,364**	$	1,479	**$**	**6,508**	$	6,900

The following table reconciles the theoretical income tax expense using a weighted average Canadian federal and provincial tax rate of 25.46% (2012 – 25.33%) to the reported tax expense. The rate increase is due to more of AKITA's revenue being earned in provinces with higher tax rates. 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, in accordance with IFRS.

$Thousands	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Income before income taxes	**$ 4,904**	$ 5,810	**$ 25,301**	$ 27,227
Expected income tax at statutory rate of 25.46% (2012 – 25.33%)	**1,249**	1,472	**6,442**	6,897
Add (deduct):				
Change in future income tax rates	**71**	14	**70**	(26)
Permanent differences	**75**	27	**119**	134
Return to provision adjustment	**(11)**	-	**(11)**	-
Other	**(20)**	(34)	**(112)**	(105)
Income tax expense	**$ 1,364**	$ 1,479	**$ 6,508**	$ 6,900

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.

Deferred Income Taxes $Thousands	**Property, plant and equipment**	**Employee pension benefits**	**Other**	**Total**
Balance as at December 31, 2011	$ 12,146	$ (503)	$ 508	$ 12,151
Charged/(credited) to the statement of net income	1,303	(73)	42	1,272
Balance as at September 30, 2012	13,449	(576)	550	13,423
Charged/(credited) to the statement of net income	5,467	(19)	15	5,463
Balance as at December 31, 2012	18,916	(595)	565	18,886
Charged/(credited) to the statement of net income	1,609	(70)	(59)	1,480
Balance as at September 30, 2013	**$ 20,525**	**$ (665)**	**$ 506**	**$ 20,336**

10. Class A and Class B Shares

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 December 31, 2011	16,376,421	1,653,884	18,030,305
Shares repurchased	(98,306)	-	(98,306)
Stock options exercised	2,000	-	2,000
Shares outstanding at September 30, 2012	16,280,115	1,653,884	17,933,999
Shares repurchased	(5,873)	-	(5,873)
Shares outstanding at December 31, 2012	16,274,242	1,653,884	17,928,126
Stock options exercised	42,000	-	42,000
Shares outstanding at September 30, 2013	**16,316,242**	**1,653,884**	**17,970,126**

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

The holders of Class A Non-Voting Shares have no right to participate if a takeover bid is made for Class B Common Shares unless:

- an offer to purchase Class B Common Shares is made to all or substantially all holders of Class B Common Shares;
- 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.

If these three pre-conditions are met, 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 Shares pursuant to the terms of the takeover bid.

The Class A Non-Voting Shares and Class B Common Shares rank equally in all other respects.

Sentgraf Enterprises Ltd., controlled by Ronald D. Southern owns 1,428,790 Class B Common shares, which at September 30, 2013 represented 86.4% of the Class B Common shares. Sentgraf Enterprises Ltd. also owns 4,505,625 Class A Non-Voting shares, which at September 30, 2013 represented 27.6% of the Class A Non-Voting shares.

The Company has an outstanding normal course issuer bid in place for 2013 and had normal course issuer bids in place throughout 2012 for the purchase of up to 3% of the outstanding Class A Non-Voting shares. During the first nine months of 2013, no shares were repurchased and cancelled under the normal course issuer bid. During the first nine months of 2012, 98,306 shares were repurchased and cancelled under normal course issuer bids at a cost of $1,023,000 of which $132,000 was charged to share capital and $891,000 was charged to retained earnings. The most recent offer will expire on May 29, 2014.

11. Stock-Based Compensation Plans

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

(number of options)	September 30, 2013	September 30, 2012	December 31, 2012
Reserved under current stock option plan	**1,700,000**	1,700,000	1,700,000
Available for issuance at beginning of period	**677,000**	779,500	779,500
Granted during the period	**(108,500)**	(102,500)	(102,500)
Available for future issuance	**568,500**	677,000	677,000

The Company did not have any outstanding Share Appreciation Rights during either 2013 or 2012, therefore no corresponding liability is recorded on the Statement of Financial Position.

A summary of the status of the Company's stock-based compensation plans as of September 30, 2013 and 2012, and changes during the periods ended on those dates is presented below:

	2013		2012	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Outstanding at January 1	442,000	10.22	341,500	10.01
Granted	108,500	13.81	102,500	10.86
Exercised	(42,000)	9.94	(2,000)	8.41
Expired	(38,000)	9.94	-	-
Outstanding at September 30	470,500	10.50	442,000	10.22
Granted			-	-
Exercised			-	-
Expired			-	-
Outstanding at December 31			442,000	10.22
Exercisable at September 30	233,100	10.50	217,200	10.04

The following table summarizes information about stock options at September 30, 2013:

		2013			2012		
Vesting Period (Years)	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
3	9.94	-	-	-	12,000	0.4	12,000
5	9.94	-	-	-	24,000	0.4	24,000
8	9.94	-	-	-	44,000	0.4	44,000
5	9.87	157,500	6.5	126,000	157,500	7.5	94,500
3	10.32	6,000	7.5	6,000	6,000	8.5	3,000
6	10.32	96,000	7.5	38,400	96,000	8.5	19,200
5	10.86	102,500	8.5	41,000	102,500	9.5	20,500
5	13.81	108,500	10.0	21,700			
Weighted Average Contractual Life			8.0			6.9	

The Company recorded $122,000 in compensation expense for the third quarter of 2013 ($221,000 for the nine month period ended September 30, 2013) compared to $77,000 for the third quarter of 2012 ($225,000 for the nine month period ended September 30, 2012) as well as corresponding changes to contributed surplus related to stock options. Compensation expense was determined using the Binomial Model based on the following assumptions:

	2013	2012
Risk free interest rate	2.18%	1.49%
Expected volatility	33.7%	34.9%
Dividends yield rate	3.4%	2.6%
Contractual life of options	5.4 years	4.5 years
Weighted average fair value	$ 13.81	$ 10.86
Forfeiture rate	0.0%	0.0%

12. Earnings per Share

	Three Months Ended		Nine Months Ended	
$Thousands - except per share	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income	$ 3,540	$ 4,331	$ 18,793	$ 20,327
Weighted average outstanding shares	17,970,126	17,970,449	17,966,939	18,008,830
Incremental shares for diluted earnings per share calculation	85,271	5,817	58,606	1,204
Weighted average outstanding shares for diluted earnings per share	18,055,397	17,976,266	18,025,545	18,010,034
Basic earnings per share ($)	$ 0.20	$ 0.24	$ 1.05	$ 1.13
Diluted earnings per share ($)	$ 0.20	$ 0.24	$ 1.04	$ 1.13

13. Dividends per Share

The following table provides a history of dividends for 2012 and 2013 to date:

Declaration Date	Payment Date	Per Share ($)	Total ($000's)
March, 2012	April, 2012	0.07	1,261
May, 2012	July, 2012	0.07	1,263
August, 2012	October, 2012	0.07	1,255
November, 2012	January, 2013	0.07	1,255
March, 2013	April, 2013	0.08	1,439
May, 2013	July, 2013	0.08	1,437
August, 2013	September, 2013	0.08	1,435

14. Segmented Information

The Company operates in one business segment and provides contract drilling services, primarily to the oil and gas industry and in some circumstances to the mining industry. Segment information 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 three quarters of 2013 and 2012 the Company operated only in Canada.

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.

a. ATCO Group and Spruce Meadows

The Company is related to the ATCO Group of companies and to Spruce Meadows through its majority shareholder (see Note 10). The accompanying table summarizes transactions and period balances with those affiliates:

	Three Months Ended		Nine Months Ended		Year Ended
$Thousands	**September 30, 2013**	September 30, 2012	**September 30, 2013**	September 30, 2012	December 31, 2012
Revenue (computer services, rent)	**$ 19**	$ 19	**$ 57**	$ 57	$ 76
Purchases:					
Property, plant and equipment (wellsite trailers)	**328**	93	**368**	408	688
Operating (sponsorship and advertising (Note 16), other)	**21**	44	**386**	415	401
Purchase commitments (wellsite trailers)	**-**	276	**-**	276	13
Period end accounts receivable	**3**	3	**3**	3	3
Period end accounts payable	**6**	95	**6**	95	30

b. Joint Ventures

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

	Three Months Ended		Nine Months Ended		Year Ended
$Thousands	**September 30, 2013**	September 30, 2012	**September 30, 2013**	September 30, 2012	December 31, 2012
Revenue	$ -	$ -	$ 78	$ -	$ 80
Direct drilling costs	**1,684**	1,216	**5,649**	4,114	5,801
Selling and administrative costs	**191**	158	**564**	548	723
Period end accounts payable	**2,905**	2,732	**2,905**	2,732	1,960

16. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At September 30, 2013, the Company had seven rigs, including five joint venture rigs, with multi-year contracts. Of these contracts, five are anticipated to expire in 2014, one in 2016 and one in 2018.

During 2004 and 2006, the Company entered into two four-year contracts to provide sponsorship and advertising to a related company at a cost of $1,300,000. These contracts have been extended and include annual costs of $325,000 for 2013 (2012 - $325,000).

The Company leases its office space at an annual cost of approximately $563,000 per year. This lease expires on December 31, 2014.

At September 30, 2013, the Company had capital expenditure commitments of $22,618,000 (September 30, 2012 - $13,466,000 and December 31, 2012 – $5,796,000).

Corporate Information

Directors

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Calgary, Alberta

Arthur C. Eastly
Corporate Director,
Calgary, Alberta

Linda A. Southern-Heathcott
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Spruce Meadows,
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

Ronald D. Southern
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Colin A. Dease
Corporate Secretary

Fred O. Hensel
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Craig W. Kushner
Director of Human Resources

Murray J. Roth
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Share Symbol / TSX

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

Website

www.akita-drilling.com