Interim report for 6 months
ended June 30, 2016

Letter to the Shareowners

AKITA Drilling Ltd.'s net loss for the three months ended June 30, 2016 was $4,062,000 (net loss of $0.23 per share basic and diluted) on revenue of $3,646,000, compared to net loss of $1,620,000 (net loss of $0.09 per share basic and diluted) on revenue of $22,536,000 for the corresponding period in 2015. Funds flow from operations for the quarter ended June 30, 2016 was $2,688,000 compared to $9,072,000 in the corresponding quarter in 2015.

Net income for the six months ended June 30, 2016 was $14,111,000 ($0.79 per share basic & diluted) on revenue of $45,636,000 which included a contract cancellation fee. Comparative figures for the corresponding six month period in 2015 were net income of $2,598,000 ($0.14 per share basic and diluted) and revenue of $69,251,000. Funds flow from operations for the January to June period in 2016 was $28,071,000 compared to $23,131,000 for the comparative period in 2015.

Crude oil and natural gas prices have recovered slightly over the first quarter of 2016 with West Texas Intermediate ("WTI") closing at $48.33 USD at June 30, 2016 which is 31% higher than in the first quarter of 2016. Oil and gas companies remain very cautious with capital spending resulting in limited opportunities for companies in the contract drilling segment. The western Canadian active rig count for the six months ended June 30, 2016 has declined 49% when compared to the same period of 2015. AKITA's rig utilization for the six months ended June 30, 2016 declined 71% with only 719 operating days versus 2,520 operating days in the same period of 2015. This significant decline in activity is the primary driver for AKITA's net loss in the second quarter of 2016.

During these challenging times, management's focus has been to preserve AKITA's strong financial position. Working capital at June 30, 2016 has increased to $31,373,000 from $16,002,000 at December 31, 2015 and cash and cash equivalent balances have increased 140% over the same timeframe. Capital spending has been limited to routine capital and totalled $1,530,000 for the six months ended June 30, 2016 compared to $11,874,000 for the six months ended June 30, 2015, which included significant rig construction costs.

Despite small improvements in crude oil and natural gas prices, management anticipates the balance of 2016 and into 2017 to remain very challenging for AKITA and the contract drilling industry as a whole. Despite this challenge, management believes the Company is in a strong position and is poised to pursue opportunities as they arise.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

Management's Discussion & Analysis

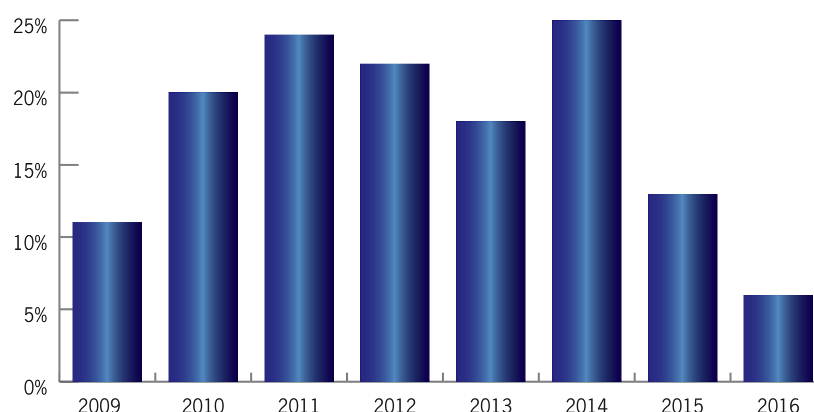
Management's discussion and analysis ("MD&A") for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements ("interim financial statements") for the six months ended June 30, 2016 and the audited consolidated financial statements and MD&A for the year ended December 31, 2015. References made to 2015 in this MD&A relate to the period from January 1 to June 30 unless otherwise stated. The information in this MD&A was approved by AKITA's Audit Committee on behalf of its Board of Directors on July 25, 2016 and incorporates all relevant considerations to that date.

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

Cyclical and Seasonal Nature of AKITA's Operations

Activity levels in the contract drilling industry are highly correlated to the market prices of crude oil and natural gas. Over the past 20 months, prices for both crude oil and natural gas have declined significantly. At June 30, 2016, WTI crude oil prices closed at $48.33 USD, a 31% increase over the closing price at March 31, 2016 but still 20% lower than June 30, 2015 and 58% lower than June 30, 2014. Natural gas prices, per AECO spot prices, have followed a similar pattern to crude oil over the same timeframe. This extended depressed commodity price environment has had a correspondingly significant impact on the western Canadian contract drilling industry, including AKITA, as highlighted in the following chart.

Canadian Drilling Rig Utilization - Second Quarter



Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

The lower activity levels have also negatively affected the Company's day rates for its services due to increased competition from underutilized rigs throughout the industry, as detailed subsequently in this MD&A.

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

In addition to considerations regarding the cyclical nature of AKITA's business, readers should be aware that historically, the first quarter of the calendar year is the most active in the drilling industry. Lower activity levels that result from spring break-up and associated travel bans on public roads typically characterize the second quarter. Reduced drilling activity, both during and then following spring break-up, were predominant characteristics of the second quarter in 2016.

The following table summarizes second quarter and year-to-date utilization for AKITA and industry for 2016 and 2015:

Utilization rates expressed in percentages	Three Months Ended June 30		Six Months Ended June 30	
	AKITA	Industry[1]	AKITA	Industry[1]
2016	**4.3**	7.0	**12.8**	14.2
2015	**27.7**	12.8	**39.7**	24.1

(1) Source: CAODC

During the second quarter of 2016 industry utilization exceeded AKITA's utilization as market segments that AKITA does not participate in were the first to start up after spring break-up. Triple pad rigs accounted for all of AKITA's operating days during the three months ended June 30, 2016, and 72% of AKITA's operating days for the six months ended June 30, 2016.

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

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

During the six months ended June 30, 2016, the Company included a material contract cancellation fee in revenue. The effect of this fee has been excluded in the Company's adjusted revenue and adjusted operating margin analysis.

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

Funds flow from operations is considered an additional GAAP measure under IFRS. AKITA's method of determining funds flow from operations may differ from methods used by other companies and includes cash flow from operating activities before working capital changes as well as equity income from joint ventures adjusted for income tax amounts paid during the period. Management and certain investors may find funds flow from operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year, since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods.

Revenue and Operating & Maintenance Expenses

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Revenue per Interim Financial Statements	**3.6**	22.5	(18.9)	(84%)	**45.6**	69.3	(23.7)	(34%)
Proportionate Share of Revenue from Joint Ventures (1)	**1.3**	7.7	(6.4)	(83%)	**7.0**	20.5	(13.5)	(66%)
Contract Cancellation Revenue	**-**	-	-	-	**(28.3)**	-	(28.3)	N/A
Adjusted Revenue (1)	**4.9**	30.2	(25.3)	(84%)	**24.3**	89.8	(65.5)	(73%)

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Operating & Maintenance Expenses per Interim Financial Statements	**1.5**	13.9	(12.4)	(89%)	**10.6**	45.1	(34.5)	(76%)
Proportionate Share of Operating & Maintenance Expenses from Joint Ventures (1)	**0.9**	4.9	(4.0)	(82%)	**4.1**	13.1	(9.0)	(69%)
Adjusted Operating & Maintenance Expenses (1)	**2.4**	18.8	(16.4)	(87%)	**14.7**	58.2	(43.5)	(75%)

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	2016	2015	Change	% Change	2016	2015	Change	% Change
Adjusted Revenue (1)	4.9	30.2	(25.3)	(84%)	24.3	89.8	(65.5)	(73%)
Adjusted Operating & Maintenance Expenses (1)	2.4	18.8	(16.4)	(87%)	14.7	58.2	(43.5)	(75%)
Adjusted Operating Margin (1)(2)	2.5	11.4	(8.9)	(78%)	9.6	31.6	(22.0)	(70%)

	Three Months Ended June 30				Six Months Ended June 30			
$Dollars	2016	2015	Change	% Change	2016	2015	Change	% Change
Adjusted Revenue per Operating Day (1)	41,025	34,130	6,895	20%	33,903	35,598	(1,695)	(5%)
Adjusted Operating & Maintenance Expenses per Operating Day (1)	19,694	21,175	(1,481)	(7%)	20,417	23,115	(2,698)	(12%)
Adjusted Operating Margin per Operating Day (1)(2)	21,331	12,955	8,376	65%	13,486	12,483	1,003	8%

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

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

Second Quarter Comparatives

During the second quarter of 2016, adjusted revenue decreased to $4,964,000 ($41,025 per day) compared to $30,205,000 ($34,130 per day) during the second quarter of 2015 as a result of weak market conditions which affected all rig categories. The increase on a per day basis was a result of the rig mix in the second quarter of 2016 as compared to the same period in 2015 in which a broader mix of rigs were operating as opposed to only triple pad rigs in 2016.

Adjusted operating and maintenance costs are tied to operating days and amounted to $2,383,000 ($19,694 per operating day) during the second quarter of 2016 compared to $18,740,000 ($21,175 per operating day) in the same period of the prior year. The decrease in operating and maintenance costs, on a total basis resulted primarily from reduced drilling activity while on a "per day" basis, resulted from cost reductions implemented over the previous year.

The adjusted operating margin for the Company decreased to $2,581,000 in the second quarter of 2016 from $11,465,000 during the corresponding quarter of 2015. The decreased adjusted operating margin is a direct result of decreased drilling activity as AKITA's operating days declined 86% in the second quarter of 2016 compared to the same period in 2015. On a per day basis, adjusted operating margin increased to $21,331 in the second quarter of 2016 from $12,955 in the comparative period of 2015, primarily as a result of the rig mix operating.

Year-to-Date Comparatives

During the first six months of 2016, adjusted revenue decreased to $24,376,000 from $89,707,000 during the first six months of 2015 as a result of lower drilling activity. Adjusted revenue per operating day decreased to $33,903 during the first six months of 2016 from $35,598 in the comparative six month period of 2015. This decrease is due to increased competition in the drilling industry as rigs compete for fewer jobs which has driven day rates lower.

While adjusted revenue for the six months ended June 30, 2016 declined by 73% compared to the corresponding period in 2015, unadjusted revenue per the interim financial statements decreased by only 34%. Offsetting the reduction in adjusted revenue was contract cancellation revenue of $28,250,000 (2015 - nil) relating to a multi-year contract that was cancelled in January of 2016 for one of AKITA's pad triple rigs. Payment of the contract cancellation fee was divided into three payments, including the first which was received during the first quarter of 2016. The remaining amounts are included in current and long-term receivables on the Company's Statement of Financial Position.

Adjusted operating and maintenance costs are tied to operating days and amounted to $14,680,000 ($20,417 per operating day) during the first six months of 2016 compared to $58,249,000 ($23,115 per operating day) in the same period of the prior year. The decrease on a per day basis is a result of both rig mix and cost controls.

The adjusted operating margin for the Company decreased to $9,696,000 in the first six months of 2016 from $31,458,000 during the corresponding period of 2015. On a per day basis, adjusted operating margin increased to $13,485 for the six months ended June 30, 2016 from $12,483 in the corresponding period of 2015. This increase in margin per day is due to lower costs per day resulting from a change in the rig mix as well as cost controls as noted above.

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 June 30, 2016, there was no deferred revenue related to these activities (June 30, 2015 - $79,000).

Depreciation and Amortization Expense

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Depreciation and Amortization Expense	**5.4**	8.3	(2.9)	(35%)	**11.7**	17.3	(5.6)	(32%)

Depreciation and amortization expense was 35% lower in the second quarter of 2016 compared to the corresponding quarter of 2015. As AKITA depreciates its rig fleet on a unit of production basis, the decrease in the depreciation and amortization expense is directly related to the 86% decrease in the number of operating days when comparing the second quarter of 2016 to the corresponding period of 2015. On a per day basis, depreciation in the second quarter of 2016 ($44,496 per day) was significantly higher than the second quarter of 2015 ($9,351 per day) as rigs are subject to certain minimum annual depreciation (in addition to the unit of production basis for depreciation).

Depreciation and amortization expense for the first six months of 2016 totalled $11,659,000 compared to $17,344,000 for the corresponding period in 2015. As with the depreciation and amortization expense for the second quarter, lower rig activity levels were the driver behind the lower depreciation and amortization expense in 2016 to date. In the first six months of 2016, drilling rig depreciation accounted for 95% of total depreciation and amortization expense (2015 - 96%).

While AKITA conducts several 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 Expenses

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Selling & Administrative Expenses per Interim Financial Statements	**3.0**	3.7	(0.7)	(19%)	**7.0**	8.4	(1.4)	(17%)
Proportionate Share of Selling & Administrative Expenses from Joint Ventures (1)	**0.0**	0.1	(0.1)	(100%)	**0.1**	0.3	(0.2)	(67%)
Adjusted Selling & Administrative Expenses (1)	**3.0**	3.8	(0.8)	(21%)	**7.1**	8.7	(1.6)	(18%)

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

Adjusted selling and administrative expenses were 29% of adjusted revenue in the first six months of 2016 compared to 10% of adjusted revenue in the first six months of 2015. The increase in selling and administrative expenses when compared to adjusted revenue is a result of the fixed nature of the majority of the Company's selling and administrative costs. The single largest component of selling and administrative expenses was salaries and benefits, which accounted for 57% of these expenses (2015 - 58%).

Equity Income from Joint Ventures

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Proportionate Share of Revenue from Joint Ventures (1)	**1.3**	7.7	(6.4)	(83%)	**7.0**	20.5	(13.5)	(66%)
Proportionate Share of Operating & Maintenance Expenses from Joint Ventures (1)	**0.9**	4.9	(4.0)	(82%)	**4.1**	13.1	(9.0)	(69%)
Proportionate Share of Selling & Administrative Expenses from Joint Ventures (1)	**0.0**	0.1	(0.1)	(100%)	**0.1**	0.3	(0.2)	(67%)
Equity Income from Joint Ventures per Interim Financial Statements	**0.4**	2.7	(2.3)	(86%)	**2.8**	7.1	(4.3)	(61%)

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

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

Other Income (Losses)

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Total Other Income (Losses)	**0.3**	0.1	0.2	200%	**0.3**	(0.1)	0.4	400%

Interest income increased to $493,000 in the first six months of 2016 from $68,000 in the corresponding period in 2015 primarily due to accrued interest ($394,000) on receivable balances related to the contract cancellation discussed previously. The remaining balance of interest income consists of interest on cash and term deposit balances.

During the first six months of 2016, the Company incurred interest expense of $80,000 related to the future cost of the Company's defined benefit pension plan. During the corresponding six month period in 2015, AKITA incurred interest expense of $285,000 primarily as a result of the Company's indebtedness as well as the future cost of the defined benefit pension plan.

During the first six months of 2016, the Company sold some ancillary assets for $125,000 that resulted in a gain of $30,000. During the first six months of 2015, the Company disposed of certain non-core assets for $786,000 resulting in an $111,000 loss.

Net other gains (losses) of $110,000 for the six months ended June 30, 2016 relate primarily to the discount of the long-term receivable associated with the contract cancellation fee. Approximately 95% of amounts recorded as Net other gains (losses) during the first six months of 2015 related to foreign exchange that was associated with rig construction for AKITA's newest triple pad rig.

Income Tax Expense

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Current Tax Expense (Recovery)	**(2.6)**	(1.0)	(1.6)	(160%)	**3.5**	0.4	3.1	775%
Deferred Tax Expense	**1.1**	2.1	(1.0)	(48%)	**1.9**	2.4	(0.5)	(21%)
Income Tax Expense (Recovery)	**(1.5)**	1.1	(2.6)	(236%)	**5.4**	2.8	2.6	93%

Income tax expense increased to $5,426,000 in the first six months of 2016 from $2,777,000 in the corresponding period in 2015 mainly due to higher pre-tax earnings resulting from the contract cancellation fee. Deferred taxes for the six months ended June 30, 2016 were lower than the same period in 2015 as the effect of the 2015 Alberta corporate income tax increase affected the second quarter of 2015, thereby increasing the Company's future tax liabilities.

Net Income (Loss), Funds Flow and Net Cash From Operating Activities

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Net Income (Loss)	**(4.1)**	(1.6)	(2.5)	(176%)	**14.1**	2.6	11.5	442%
Funds Flow from Operations [1]	**2.7**	9.1	(6.4)	(70%)	**28.1**	23.1	5.0	22%

(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".

During the three months ended June 30, 2016, the Company reported a net loss of $4,062,000 or $0.23 per Class A Non-Voting and Class B Common Share (basic and diluted) compared to a net loss of $1,620,000 or $0.09 per share (basic and diluted) in the comparative quarter of 2015. Two primary factors that contributed to the increased loss in 2016 were the 86% reduction in operating days during the second quarter of 2016 compared to the same period in 2015 and the increase in depreciation resulting from minimum depreciation days for non-operating rigs.

Funds flow from operations decreased to $2,688,000 during the second quarter of 2016 from $9,072,000 in the corresponding quarter in 2015. Funds flow from operations was negatively affected by weaker drilling activity in the second quarter of 2016 but was not affected by depreciation expense as this is a non-cash item.

Net income increased to $14,111,000 or $0.79 per Class A Non-Voting and Class B Common Shares (basic and diluted) for the first six months of 2016 from $2,598,000 or $0.14 per share (basic and diluted) in the corresponding period of 2015. Funds flow from operations increased to $28,071,000 during the first six months of 2016 from $23,131,000 in the corresponding period in 2015. The increase in both net income and funds flow for the six month period ended June 30, 2016 was directly attributable to the contract cancellation fee recorded in the first quarter of 2016. The larger increase in net income than in funds flow in the first six months of 2016 compared to 2015 is a result of higher depreciation and future taxes in 2015, which are non-cash items that do not affect funds flow.

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

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2016**	2015	Change	% Change	**2016**	2015	Change	% Change
Funds Flow from Operations [1]	**2.7**	9.1	(6.4)	(70%)	**28.1**	23.1	5.0	22%
Change in Non-Cash Working Capital	**2.7**	18.6	(15.9)	(85%)	**(1.0)**	15.2	(16.2)	(107%)
Equity Income from Joint Ventures	**(0.4)**	(2.7)	2.3	85%	**(2.8)**	(7.1)	4.3	61%
Change in Long-Term Receivable	**(0.1)**	0.0	(0.1)	N/A	**(9.4)**	0.0	(9.4)	N/A
Interest Paid	**0.0**	0.0	0.0	N/A	**0.0**	0.2	(0.2)	100%
Current Income Tax Expense (Recovery)	**(2.7)**	(1.0)	(1.7)	(170%)	**3.5**	0.4	3.1	775%
Income Tax Paid (Recovered)	**0.0**	1.0	(1.0)	100%	**(3.3)**	(0.4)	(2.9)	(725%)
Net Cash from Operating Activities	**2.2**	25.0	(22.8)	(91%)	**15.1**	31.4	(16.3)	(52%)

(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 June 30, 2016 AKITA had 31 drilling rigs, including nine that operated under joint ventures (28.225 net to AKITA), compared to 36 rigs (32.725 net) in the corresponding period of 2015 (5 rigs decommissioned). There were no changes to AKITA's rig fleet during the first 6 months of 2016.

	Three Months Ended June 30				Six Months Ended June 30			
	2016	2015	Change	% Change	**2016**	2015	Change	% Change
Operating Days	**121**	885	(764)	(86%)	**719**	2,520	(1,801)	(71%)
Utilization Rate	**4.3%**	27.7%	(23.4)	(84%)	**12.8%**	39.7%	(26.9)	(68%)

Liquidity and Capital Resources

Cash used for capital expenditures totalled $1,530,000 in the first six months of 2016 (2015 - $11,874,000). All of the capital spending in 2016 relates to routine items while nearly three quarters of the 2015 capital expenditures related to the completion of a triple pad rig.

At June 30, 2016, AKITA's Statement of Financial Position included working capital (current assets minus current liabilities) of $31,373,000 compared to $7,414,000 at June 30, 2015 and $16,002,000 at December 31, 2015. Readers should be aware of the seasonal nature of AKITA's business and its effect 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 spring break-up. Non-cash working capital amounted to $8,800,000 at June 30, 2016 compared to non-cash working capital of $6,637,000 at December 31, 2015. Working capital at June 30, 2016 improved compared to June 30, 2015 as a result of cost controls over capital and operating expenses as well as the first payment and receivables associated with the contract cancellation fee.

The Company chooses to maintain a conservative Statement of Financial Position due to the cyclical nature of the industry. In addition to its cash and term deposit balances, the Company has an operating loan facility with its principal banker totalling $100,000,000 that is available until 2020. Although the facility has been provided in order to finance general corporate needs, capital expenditures and acquisitions, management intends to access this facility primarily to enable the Company to explore expansion opportunities or to fund new rig construction requirements related to drilling contracts that it might be awarded. The interest rate on the facility varies based upon the actual amounts borrowed, and ranges from 0.45% to 1.45% over prime interest rates or 1.45% to 2.45% over guaranteed notes, depending on the preference of the Company. The Company did not have any borrowings from this facility at June 30, 2016 (2015 - $2,500,000).

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 light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase or issue new shares, sell assets or take on long-term debt. Since 1999, dividend rates have increased eight times with no decreases. The last dividend increase was declared on March 5, 2014.

During the 10 year period since 2006, AKITA has repurchased 711,408 Class A Non-Voting shares through normal course issuer bids and has issued 122,200 Class A Non-Voting shares upon exercise of stock options.

The Company had two rigs under multi-year contracts at June 30, 2016. Of these contracts, one is due to expire in 2017 and one in 2018.

From time to time, the Company may provide guarantees for bank loans to joint venture partners in respect of sales of rig interests to joint venture partners. At June 30, 2016, AKITA provided $4,792,000 in deposits with its bank for those purposes (June 30, 2015 - $8,482,000 and December 31, 2015 - $5,978,000). AKITA's security from its partners for these guarantees includes interests in specific rig assets. These balances have been classified as restricted cash on the Interim Statements of Financial Position.

Summary of Quarterly Results

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

$Thousands, except per share

Three Months Ended	Mar 31	Jun 30	Sep 30	Dec 31
2016				
Revenue	**41,991**	**3,646**		
Net income (loss)	**18,173**	**(4,062)**		
Earnings (loss) per share (basic and diluted) ($)	**1.01**	**(0.23)**		
Funds flow from operations [1]	**25,368**	**2,688**		
Net cash from operating activities	**12,843**	**2,219**		
2015				
Revenue	46,715	22,536	22,021	21,216
Net income (loss)	4,218	(1,620)	(7,581)	(28,982)
Earnings (loss) per share (basic) ($)	0.24	(0.09)	(0.42)	(1.63)
Earnings (loss) per share (diluted) ($)	0.23	(0.09)	(0.42)	(1.63)
Funds flow from operations [1]	14,059	9,072	8,225	7,154
Net cash from operating activities	6,015	25,011	6,325	4,156
2014				
Revenue	54,342	28,365	36,556	46,011
Net income	10,150	2,081	3,854	4,994
Earnings per share (basic and diluted) ($)	0.57	0.12	0.21	0.27
Funds flow from operations [1]	17,665	10,609	10,942	16,979
Net cash from operating activities	5,127	28,789	4,641	2,065

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

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

- Activity levels, which are directly correlated to revenue, net income and funds flow from operations[1] have been on a downward trend since the first quarter of 2015. This trend has continued into the second quarter of 2016 with activity levels reaching historic lows;

- Operating margins per operating day [2] which influences both net income and funds flow from operations [1] decreased since 2014 due to a change in the classes of rigs worked and more competitive market conditions. This trend to lower operating margins per operating day [2] accelerated throughout 2015 and into the first quarter of 2016 but appears to have stabilized in the second quarter of 2016; and
- Net cash from operating activities is not directly correlated to market strength on a quarterly basis. Changes are typically related to the timing of changes in various non-cash working capital accounts and fluctuate with the seasonality of the business. The departure from this trend in 2016 is related to the contract cancellation fee.

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

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

Significant Accounting Estimates and Judgments

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

Asset Impairment Indicators

At June 30, 2016, the Company conducted a detailed analysis of its previous year end asset impairment testing process and results. Management is satisfied that the estimates and judgments used in the December 31, 2015 asset impairment testing remain appropriate and that no additional internal or external indicators of asset impairment have occurred since that date and that no additional asset impairment is required at June 30, 2016.

Useful Lives of Drilling Rigs

The preparation of AKITA's interim financial statements requires management to make significant estimates relating to the useful lives of drilling rigs. Depreciation is calculated using a detailed approach based on major components and results in an average useful life of 3,600 operating days per rig. Drilling rigs are depreciated using the unit of production method. Assuming a 10% difference in the actual useful lives of drilling rigs compared to the accounting estimate of useful life and based upon actual drilling days achieved for the six months ended June 30, 2016, drilling rig depreciation could be either increased or decreased by $1,108,000 (2015 - $1,664,000). AKITA's depreciation expense does not have any effect on the changes to the financial condition for the Company, as depreciation is a non-cash item.

Defined Benefit Pension Liability

A significant estimate used in the preparation of AKITA's interim financial statements relates to the measurement of the defined benefit pension liability for selected employees that was recorded as $3,965,000 at June 30, 2016 (June 30, 2015 - $3,642,000). AKITA's pension liability estimates do not have any effect on the changes to the financial condition for the Company, as the defined benefit pension is a non-cash item. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist

in the actuarial estimate of the Company's pension expense and liability. For 2016, a key assumption is the discount rate of 3.9%.

Deferred Income Taxes

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

Incomplete Transactions at Period End

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

Accounting Changes Not Yet Adopted

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

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

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

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

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

Future Outlook

The drilling industry is cyclical and certain key factors that have an effect 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.

The second quarter of 2016 saw the lowest utilization for the Company in its history and the second lowest active rig count in Western Canada in 40 years with only 48 active rigs in the industry. The combination of

historically low activity levels coupled with a long wet spring break-up have resulted in a trough in the industry. With spring break-up now over and crude oil and natural gas prices rising over the quarter, there have been modest increases in the active rig counts for the contract drilling industry including AKITA. This trend of modest activity increases is expected to continue through the year with the assumption that commodity prices may continue to strengthen gradually. Although crude oil and natural gas prices have strengthened, there continues to be an oversupply of drilling rigs available which is continuing to depress prices and limit opportunities. Management anticipates 2016 to be a challenging year for the Company and the contract drilling industry as a whole.

Despite the current weak market, AKITA continues to build its financial strength by retaining cash and improving operational efficiencies. Furthermore, the Company has no current or long-term debt. During the first quarter of 2016, the Company renewed its $100,000,000 credit facility to remain financially flexible in the current market.

AKITA continues to maintain its fleet of rigs to the Company's high standard and retain senior field staff, which should allow the Company to quickly deploy rigs once opportunities arise.

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

Forward-Looking Statements

From time to time AKITA makes forward-looking statements. These statements include but are not limited to comments with respect to AKITA's objectives and strategies, financial condition, results of operations, the outlook for the industry and risk management.

By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions and other forward-looking statements will not be realized. Readers of this MD&A are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by factors such as the level of exploration and development activity carried on by AKITA's customers; world crude oil prices and North American natural gas prices; weather; access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that investors and others should carefully consider the foregoing factors as well as other uncertainties and events prior to making a decision to invest in AKITA. Except as required by law, the Company does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by it or on its behalf.

Management's Responsibilty for Financial Information

As at June 30, 2016, management evaluated, under the supervision of and the participation of the President and Chief Executive Officer (the "CEO") and the Vice President, Finance as the Chief Financial Officer (the "CFO"), the effectiveness of the Company's disclosure controls and procedures ("DC&P") as defined under National Instrument 52-109. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P was effective as at June 30, 2016.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Interim Consolidated Statements of Financial Position

Unaudited $Thousands		June 30, 2016	June 30, 2015	December 31, 2015
Assets				
Current Assets				
Cash and cash equivalents	Note 5	$ 22,573	$ 4,725	$ 9,369
Accounts receivable	Note 6	12,269	12,885	14,310
Income taxes recoverable		-	2,894	3,279
Prepaid expenses and other		491	761	75
		35,333	21,265	27,033
Non-current Assets				
Long-term receivable	Note 6	9,442	-	-
Restricted cash	Note 7	4,792	8,482	5,978
Other long-term assets		957	971	917
Investments in joint ventures	Note 8	3,774	3,576	3,941
Property, plant and equipment	Note 9	206,483	272,732	216,647
Total Assets		$ 260,781	$ 307,026	$ 254,516
Liabilities				
Current Liabilities				
Operating loan facility	Note 6	$ -	$ 2,500	$ -
Accounts payable and accrued liabilities		2,187	9,747	9,506
Deferred revenue		-	79	-
Dividends payable	Note 10	1,525	1,525	1,525
Income taxes payable		248	-	-
		3,960	13,851	11,031
Non-current Liabilities				
Financial instruments	Note 6	77	166	117
Deferred income taxes	Note 11	21,099	29,468	19,203
Deferred share units	Note 12	216	280	171
Pension liability		3,965	3,642	3,794
Total Liabilities		29,317	47,407	34,316
Shareholder's Equity				
Class A and Class B shares	Note 13	23,871	23,871	23,871
Contributed surplus		4,149	3,787	3,946
Accumulated other comprehensive loss		(244)	(280)	(244)
Retained earnings		203,688	232,241	192,627
Total Equity		231,464	259,619	220,200
Total Liabilities and Equity		$ 260,781	$ 307,026	$ 254,516

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

Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

Unaudited $Thousands		Three Months Ended		Six Months Ended	
		June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Revenue	Note 14	**$ 3,646**	$ 22,536	**$ 45,636**	$ 69,251
Costs and expenses					
Operating and maintenance		**1,464**	13,858	**10,618**	45,102
Depreciation and amortization	Note 9	**5,384**	8,276	**11,659**	17,344
Selling and administrative		**3,037**	3,726	**6,999**	8,437
Total costs and expenses		**9,885**	25,860	**29,276**	70,883
Revenue less costs and expenses		**(6,239)**	(3,324)	**16,360**	(1,632)
Equity income from joint ventures	Note 8	**389**	2,694	**2,844**	7,073
Other income (loss)					
Interest income		**245**	37	**493**	68
Interest expense		**(40)**	(79)	**(80)**	(285)
Gain (loss) on sale of assets		**57**	79	**30**	(111)
Net other gains (losses)		**57**	33	**(110)**	262
Total other income (loss)		**319**	70	**333**	(66)
Income (loss) before income taxes		**(5,531)**	(560)	**19,537**	5,375
Income taxes (recovery)	Note 11	**(1,469)**	1,060	**5,426**	2,777
Net income (loss) and comprehensive income (loss) for the period attributable to shareholders		**$ (4,062)**	$ (1,620)	**$ 14,111**	$ 2,598
Earnings (loss) per Class A and Class B Share	Note 15				
Basic		**$ (0.23)**	$ (0.09)	**$ 0.79**	$ 0.14
Diluted		**$ (0.23)**	$ (0.09)	**$ 0.79**	$ 0.14

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 (Loss)	Retained Earnings	Total Equity
Balance at December 31, 2014	$ 22,505	$ 1,366	$ 23,871	$ 3,557	$ (280)	$ 232,693	$ 259,841
Net income for the period	-	-	-	-	-	2,598	2,598
Stock options charged to expense	-	-	-	230	-	-	230
Dividends	-	-	-	-	-	(3,050)	(3,050)
Balance at June 30, 2015	$ 22,505	$ 1,366	$ 23,871	$ 3,787	$ (280)	$ 232,241	$ 259,619
Net loss for the period	-	-	-	-	-	(36,562)	(36,562)
Remeasurement of pension liability	-	-	-	-	36	-	36
Stock options charged to expense	-	-	-	159	-	-	159
Dividends	-	-	-	-	-	(3,052)	(3,052)
Balance at December 31, 2015	$ 22,505	$ 1,366	$ 23,871	$ 3,946	$ (244)	$ 192,627	$ 220,200
Net income for the period	-	-	-	-	-	**14,111**	**14,111**
Stock options charged to expense	-	-	-	**203**	-	-	**203**
Dividends	-	-	-	-	-	**(3,050)**	**(3,050)**
Balance at June 30, 2016	**$ 22,505**	**$ 1,366**	**$ 23,871**	**$ 4,149**	**$ (244)**	**$ 203,688**	**$ 231,464**

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

Interim Consolidated Statements of Cash Flows

Unaudited $Thousands		Three Months Ended		Six Months Ended	
		June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Operating Activities					
Net income (loss) and comprehensive income (loss)		**$ (4,062)**	$ (1,620)	**$ 14,111**	$ 2,598
Non-cash items included in net income (loss):					
Depreciation and amortization	Note 9	**5,384**	8,276	**11,659**	17,344
Deferred income taxes expense	Note 11	**1,148**	2,059	**1,896**	2,415
Defined benefit pension plan expense		**107**	114	**216**	230
Stock options and deferred share units expense	Note 12	**187**	351	**259**	420
(Gain) loss on sale of assets		**(57)**	(79)	**(30)**	111
Unrealized foreign currency loss		**-**	-	**-**	73
Unrealized gain on financial guarantee contracts		**(19)**	(29)	**(40)**	(60)
Funds flow from operations		**2,688**	9,072	**28,071**	23,131
Change in non-cash working capital	Note 17	**2,664**	18,683	**(955)**	15,196
Equity income from joint ventures	Note 8	**(389)**	(2,694)	**(2,844)**	(7,073)
Change in long-term receivable	Note 6	**(119)**	-	**(9,442)**	-
Pension benefits paid		**(7)**	(6)	**(15)**	(14)
Interest paid		**(1)**	(44)	**(1)**	(214)
Income taxes expense (recovery) - current	Note 11	**(2,617)**	(999)	**3,530**	362
Income taxes paid (recovered)		**-**	999	**(3,282)**	(362)
Net cash from operating activities		**2,219**	25,011	**15,062**	31,026
Investing Activities					
Capital expenditures	Note 9	**(1,157)**	(6,857)	**(1,530)**	(11,874)
Change in non-cash working capital related to capital	Note 17	**(147)**	(18)	**(1,500)**	(7,285)
Net distributions from investments in joint ventures	Note 8	**559**	3,094	**3,011**	9,711
Change in cash restricted for loan guarantees		**525**	899	**1,186**	899
Change in term deposits		**16,000**	-	**-**	-
Proceeds on sale of assets		**65**	81	**125**	786
Net cash used in investing activities		**15,845**	(2,801)	**1,292**	(7,763)
Financing Activities					
Change in operating loan facility		**-**	(17,314)	**-**	(17,500)
Dividends paid	Note 10	**(1,525)**	(1,525)	**(3,050)**	(3,050)
Loan commitment fee		**-**	-	**(100)**	-
Net cash used in financing activities		**(1,525)**	(18,839)	**(3,150)**	(20,550)
Increase in cash and cash equivalents		**16,539**	3,371	**13,204**	2,713
Cash and cash equivalents, beginning of period		**6,034**	1,354	**9,369**	2,012
Cash and Cash Equivalents, End of Period		**$ 22,573**	$ 4,725	**$ 22,573**	$ 4,725

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

Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2016 and June 30, 2015 (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. From time to time, the Company is involved in other forms of drilling related to potash mining and the development of storage caverns. The Company owns and operates 31 drilling rigs (28.225 net) in Canada.

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

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

The Company is a limited liability company incorporated and domiciled in Alberta, Canada. The address of its registered office is 1000, 333 – 7th Avenue SW, Calgary, Alberta. The Company is listed on the Toronto Stock Exchange. The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

2. Basis of Preparation

The unaudited interim condensed consolidated financial statements ("interim financial statements") for the six months ended June 30, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as applicable to interim financial reports including International Accounting Standard ("IAS") 34, "Interim Financial Reporting", and should be read in conjunction with the audited annual consolidated financial statements, including the notes thereof, for the year ended December 31, 2015, which have been prepared in accordance with IFRS.

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

The accounting policies applied in these interim financial statements are based on IFRS issued and effective as of July 25, 2016, the date that the Company's Audit Committee of the Board of Directors approved the interim financial statements.

3. Significant Accounting Policies

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

4. Significant Accounting Estimates and Judgments

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

Asset Impairment Indicators

At June 30, 2016, the Company conducted a detailed analysis of its previous year end asset impairment testing process and results. Management is satisfied that the estimates and judgments used in the December 31, 2015 asset impairment testing remain accurate and that no additional internal or external indicators of asset impairment have occurred since that date and that no additional asset impairment is required at June 30, 2016.

Useful Lives of Drilling Rigs

The preparation of AKITA's interim financial statements requires management to make significant estimates relating to the useful lives of drilling rigs. Depreciation is calculated using a detailed approach based on major components and results in an average useful life of 3,600 operating days per rig. Drilling rigs are depreciated using the unit of production method. Assuming a 10% difference in the actual useful lives of drilling rigs compared to the accounting estimate of useful life and based upon actual drilling days achieved for the six months ended June 30, 2016, drilling rig depreciation could be either increased or decreased by $1,108,000 (2015 - $1,664,000). AKITA's depreciation expense does not have any effect on the changes to the financial condition for the Company, as depreciation is a non-cash item.

Defined Benefit Pension Liability

Significant estimates used in the preparation of AKITA's interim financial statements relate to the measurement of the defined benefit pension liability for selected employees that was recorded as $3,965,000 at June 30, 2016 (June 30, 2015 - $3,642,000 and December 31, 2015 - $3,794,000). AKITA's pension liability estimates do not have any effect on the changes to the financial condition for the Company, as the defined benefit pension is a non-cash liability. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2016, a key assumption is the discount rate of 3.9%.

Deferred Income Taxes

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

Incomplete Transactions at Period End

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

5. Cash and Cash Equivalents

$Thousands	June 30, 2016	June 30, 2015	December 31, 2015
Cash	$ 4,565	$ 4,725	$ 9,369
Short-term bank deposits	18,008	-	-
Cash and Cash Equivalents	$ 22,573	$ 4,725	$ 9,369

6. Financial Instruments

Operating Loan Facility

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

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

At June 30, 2016, the Company had repaid all funds drawn on its loan facility (June 30, 2015 – drawn $2,500,000 and December 31, 2015 – nil).

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

Contracts Measured at Fair Value

Financial guarantee contracts
The Company guarantees bank loans made to joint venture partners and has provided an assignment of monies on deposit with respect to these loans. The Company has recorded the loan guarantee benefit at its fair value of $77,000 (June 30, 2015 - $166,000 and December 31, 2015 - $117,000). The fair value measurement of the financial guarantee benefit has a fair value hierarchy of Level 2 whereby fair value was based on a valuation model that utilized indirect observable market data.

Financial Instrument Risk Exposure and Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, foreign currency risk, liquidity risk and commodity risk. In addition, the Company is exposed to interest rate risk through its operating loan facility and through its investment in short-term bank deposits.

Credit Risk

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

In the first quarter of 2016, one of AKITA's customers elected to cancel a multi-year contract that was scheduled to continue to 2019. As a result of the contract cancellation, AKITA received $9,578,000 in contract

cancellation fees during the first quarter of 2016. The remaining contract cancellation fees have been recorded as accounts receivable ($9,614,000) and long-term receivable ($9,442,000).

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	June 30, 2016	June 30, 2015	December 31, 2015
Within 30 days	$ 1,697	$ 10,662	$ 11,560
31 to 60 days	1,014	1,856	2,411
61 to 90 days	-	-	402
Over 90 days	-	473	(13)
Allowance for doubtful accounts	(56)	(106)	(50)
	2,655	12,885	14,310
Current portion of contract cancellaton fees	9,614	-	-
Accounts receivable	$ 12,269	$ 12,885	$ 14,310

Foreign Currency Risk

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

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At June 30, 2016, June 30, 2015 and December 31, 2015, this risk was limited by having strong cash flows from operations, and cash and cash equivalents sufficient to meet all current liabilities.

Commodity Risk

The Company is exposed to the effects of fluctuating crude oil and natural gas prices as well as the resultant changes in the exploration and development budgets of its customers.

7. Restricted Cash

$Thousands	June 30, 2016	June 30, 2015	December 31, 2015
Balance held in term deposits	$ 4,792	$ 8,482	$ 5,978

During 2013, the Company guaranteed bank loans made to joint venture partners totaling $2,812,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $1,120,000 with respect to these loans.

During 2014, the Company guaranteed bank loans made to joint venture partners totaling $5,648,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $3,672,000 with respect to these loans.

From time to time, the restricted cash balance is reduced to reflect joint venture partner loan repayments.

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.

8. Investments in Joint Ventures

The Company conducts certain rig operations via joint ventures with Aboriginal and First Nations partners whereby rig assets are jointly owned. Currently there are 22 different Aboriginal and First Nations groups with equity 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 or First Nations partner varies between rigs and groups and ranges from 5% to 50% per group per rig.

While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis. The Company accounts for the joint venture interests using the equity method 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 Investment in Joint Ventures

$Thousands	Investments in Joint Ventures
Balance as at December 31, 2014	$ 6,214
Net income for the six month period ended June 30, 2015	7,073
Distributions for the six month period ended June 30, 2015	(9,711)
Balance as at June 30, 2015	3,576
Net income for the six month period ended December 31, 2015	4,191
Distributions for the six month period ended December 31, 2015	(3,826)
Balance as at December 31, 2015	3,941
Net income for the six month period ended June 30, 2016	**2,844**
Distributions for the six month period ended June 30, 2016	**(3,011)**
Balance as at June 30, 2016	**$ 3,774**

Summarized Joint Venture Financial Information

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

	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
$Thousands	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2015
Cash	$ 1,514	$ 556	$ 2,070	$ 2,375	$ 903	$ 3,278
Other current assets	3,318	588	3,906	4,145	1,529	5,674
Non-current assets	55	-	55	55	-	55
Total Assets	4,887	1,144	6,031	6,575	2,432	9,007
Current liabilities	1,113	239	1,352	2,805	728	3,553
Non-current liabilities	-	-	-	194	34	228
Total Liabilities	1,113	239	1,352	2,999	762	3,761
Net Assets	$ 3,774	$ 905	$ 4,679	$ 3,576	$ 1,670	$ 5,246

	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
	Six Months Ended			Six Months Ended		
$Thousands	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2015
Revenue	$ 6,989	$ 1,472	$ 8,461	$ 20,456	$ 7,689	$ 28,145
Net Income	$ 2,844	$ 544	$ 3,388	$ 7,073	$ 2,504	$ 9,577

9. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2014	$ 4,302	$ 458,157	$ 8,937	$ 471,396
Additions	-	11,839	35	11,874
Disposals	-	(2,129)	(518)	(2,647)
Balance as at June 30, 2015	4,302	467,867	8,454	480,623
Additions	-	5,862	224	6,086
Disposals	-	(7,872)	(364)	(8,236)
Impairment loss	-	(59,795)	-	(59,795)
Balance as at December 31, 2015	4,302	406,062	8,314	418,678
Additions	**-**	**1,530**	**-**	**1,530**
Disposals	**-**	**(7,637)**	**(477)**	**(8,114)**
Balance as at June 30, 2016	**$ 4,302**	**$ 399,955**	**$ 7,837**	**$ 412,094**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2014	$ 1,191	$ 185,134	$ 6,026	$ 192,351
Disposals	-	(1,232)	(518)	(1,750)
Depreciation expense	41	16,640	609	17,290
Balance as at June 30, 2015	1,232	200,542	6,117	207,891
Disposals	-	(7,018)	(364)	(7,382)
Depreciation expense	41	18,749	559	19,349
Impairment loss	-	(17,827)	-	(17,827)
Balance as at December 31, 2015	1,273	194,446	6,312	202,031
Disposals	**-**	**(7,550)**	**(469)**	**(8,019)**
Depreciation expense	**-**	**11,082**	**517**	**11,599**
Balance as at June 30, 2016	**$ 1,273**	**$ 197,978**	**$ 6,360**	**$ 205,611**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
As at December 31, 2014	$ 3,111	$ 273,023	$ 2,911	$ 279,045
As at June 30, 2015	$ 3,070	$ 267,325	$ 2,337	$ 272,732
As at December 31, 2015	$ 3,029	$ 211,616	$ 2,002	$ 216,647
As at June 30, 2016	**$ 3,029**	**$ 201,977**	**$ 1,477**	**$ 206,483**

The Company had $380,000 in Property, Plant and Equipment that was not being depreciated as these assets were under construction as at June 30, 2016 (June 30, 2015 - $1,504,000 and December 31, 2015 – $106,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $60,000 for the six month period ended June 30, 2016 (June 30, 2015 - $54,000).

10. Dividends

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

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

11. Income Taxes

Income tax expense is comprised of the following:

	Three Months Ended		Six Months Ended	
$Thousands	**June 30, 2016**	June 30, 2015	**June 30, 2016**	June 30, 2015
Current tax expense (recovery)	**$ (2,617)**	$ (999)	**$ 3,530**	$ 362
Deferred tax expense	**1,148**	2,059	**1,896**	2,415
Income tax expense (recovery)	**$ (1,469)**	$ 1,060	**$ 5,426**	$ 2,777

The following table reconciles the income tax expense using a weighted average Canadian federal and provincial tax rate of 26.94% (2015 – 26.17%) to the reported tax expense. The rate increase is due to the Alberta provincial corporate income tax rate increase from 10% to 12% in 2015. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements.

	Three Months Ended		Six Months Ended	
$Thousands	**June 30, 2016**	June 30, 2015	**June 30, 2016**	June 30, 2015
Income (loss) before income taxes	**$ (5,531)**	$ (560)	**$ 19,537**	$ 5,375
Expected income tax expense (recovery) at the statutory rate	**(1,490)**	(147)	**5,263**	1,407
Add (deduct):				
Change in future income tax rates	**7**	1,180	**145**	1,425
Permanent differences	**47**	44	**80**	55
Other	**(33)**	(17)	**(62)**	(110)
Income tax expense (recovery)	**$ (1,469)**	$ 1,060	**$ 5,426**	$ 2,777

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, 2014	$ 27,353	$ (870)	$ 570	$ 27,053
Charged (credited) to the statement of net income (loss)	2,616	(103)	(98)	2,415
Balance as at June 30, 2015	29,969	(973)	472	29,468
Charged (credited) to the statement of net income (loss)	(10,269)	(70)	61	(10,278)
Credited to other comprehensive income	-	13	-	13
Balance as at December 31, 2015	19,700	(1,030)	533	19,203
Charged (credited) to the statement of net income (loss)	**2,018**	**(63)**	**(59)**	**1,896**
Balance as at June 30, 2016	**$ 21,718**	**$ (1,093)**	**$ 474**	**$ 21,099**

12. Stock-based Compensation Plans

(a) Stock Options

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

(number of options)	June 30, 2016	June 30, 2015	December 31, 2015
Reserved under current stock option plan	**1,700,000**	1,700,000	1,700,000
Available for issuance at beginning of the period	**333,500**	438,500	438,500
Granted during the period	**(197,500)**	(105,000)	(105,000)
Available for future issuance	**136,000**	333,500	333,500

A summary of the status of the Company's stock option plans as of June 30, 2016 and 2015, and changes during the periods ended on those dates is presented below:

	2016		2015	
	Options	**Weighted Average Exercise Price ($)**	Options	Weighted Average Exercise Price ($)
Options outstanding at January 1	**682,000**	**11.09**	577,000	12.20
Granted	**197,500**	**7.13**	105,000	10.28
Options outstanding at June 30	**879,500**	**10.83**	682,000	11.09
Granted			-	-
Options outstanding at December 31			682,000	11.09
Options exercisable at June 30	**549,500**	**11.05**	413,000	10.96
Options exercisable at December 31			459,500	11.38

The following table summarizes outstanding stock options at June 30:

		2016			2015		
Vesting Period (Years)	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
5	9.87	150,000	3.8	150,000	150,000	4.8	150,000
3	10.32	6,000	4.7	6,000	6,000	5.7	6,000
6	10.32	91,000	4.7	91,000	91,000	5.7	91,000
5	10.86	97,500	5.7	97,500	97,500	6.7	78,000
5	13.81	102,500	7.2	71,500	102,500	8.2	41,000
5	16.02	130,000	8.2	52,000	130,000	9.2	26,000
5	10.28	105,000	8.8	42,000	105,000	9.8	21,000
5	7.13	197,500	9.8	39,500			
Weighted Average Contractual Life			7.1			7.3	

(b) Deferred Share Units

A summary of the Company's deferred share unit plan as of June 30, 2016 and 2015, and changes during the periods ended on those dates is presented below:

	2016		2015	
	Deferred Share Units (#)	Fair Value ($Thousands)	Deferred Share Units (#)	Fair Value ($Thousands)
Deferred share units outstanding at January 1	31,083	$ 211	7,309	$ 91
Granted during the period	-	-	23,077	240
Issued in lieu of dividends	771	5	110	1
Change in fair value during the period	-	51	-	(52)
Deferred share units outstanding at June 30	31,854	$ 267	30,496	$ 280
Issued in lieu of dividends			587	5
Change in fair value during the period			-	(74)
Deferred share units outstanding at December 31			31,083	$ 211
Deferred share units allocated to:				
Accounts payable and accrued liabilities	6,134	$ 51	-	$ -
Non-current liabilities	25,720	216	30,496	280
Deferred share units outstanding at June 30	$ 31,854	$ 267	30,496	$ 280

(c) Share-based Compensation Expense

	Three Months Ended		Six Months Ended	
$Thousands	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Stock option expense	$ 138	$ 147	$ 203	$ 231
Deferred share unit expense	49	204	56	189
Total	$ 187	$ 351	$ 259	$ 420

Compensation expense for options has been determined using the Binomial Model based on the following assumptions:

	2016	2015
Risk free interest rate	0.80%	1.04%
Expected volatility	31.0%	28.0%
Dividends yield rate	4.0%	2.6%
Contractual life of options	5.4 years	5.4 years
Weighted average fair value	$ 7.13	$ 10.28
Forfeiture rate	0.0%	0.0%
Fair value of options	$ 1.47	$ 2.18

13. Share Capital

Authorized:

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

Issued:

- All issued shares are fully paid

Number of Shares	Class A Non-Voting	Class B Common	Total
Shares outstanding at June 30, 2015	**16,291,877**	**1,653,784**	**17,945,661**
Shares repurchased	-	-	-
Shares outstanding at December 31, 2015	**16,291,877**	**1,653,784**	**17,945,661**
Shares repurchased	-	-	-
Shares outstanding at June 30, 2016	**16,291,877**	**1,653,784**	**17,945,661**

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

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

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

14. Revenue

Revenue is comprised of the following:

	Three Months Ended		Six Months Ended	
$Thousands	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Contract drilling services	$ 3,646	$ 22,536	$ 17,386	$ 69,251
Contract cancellation fees	-	-	28,250	-
Total revenue	$ 3,646	$ 22,536	$ 45,636	$ 69,251

15. Earnings (Loss) per Share

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income (loss) ($Thousands)	$ (4,062)	$ (1,620)	$ 14,111	$ 2,598
Weighted average outstanding shares	17,945,661	17,945,661	17,945,661	17,945,661
Incremental shares for diluted earnings per share calculation	16,803	4,539	5,074	8,295
Weighted average outstanding shares for diluted earnings per share	17,942,464	17,950,200	17,950,735	17,953,956
Basic earnings (loss) per share	$ (0.23)	$ 0.09	$ 0.79	$ 0.14
Diluted earnings (loss) per share	$ (0.23)	$ 0.09	$ 0.79	$ 0.14

16. 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.

Joint Ventures

The Company is related to its joint ventures. The joint ventures' transactions and period balances with AKITA is presented below:

	Three Months Ended		Six Months Ended		Year Ended
$Thousands	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	December 31, 2015
Revenue	$ -	$ -	$ 26	$ 30	$ 30
Direct drilling costs	138	1,148	863	3,174	4,866
Selling and administrative costs	16	135	111	351	553
Period end accounts payable	417	1,706	417	1,706	1,872

17. Changes in Non-Cash Working Capital

	Three Months Ended		Six Months Ended	
$Thousands	**June 30, 2016**	June 30, 2015	**June 30, 2016**	June 30, 2015
Change in non-cash working capital:				
Accounts receivable	**$ 4,141**	$ 25,719	**$ 2,041**	$ 27,096
Income tax recoverable	**-**	(1,094)	**3,279**	117
Prepaid expenses and other	**172**	295	**(416)**	(504)
Accounts payable and accrued liabilities	**(1,796)**	(6,207)	**(7,359)**	(18,702)
Deferred revenue	**-**	(48)	**-**	(96)
	$ 2,517	$ 18,665	**$ (2,455)**	$ 7,911
Pertaining to:				
Operations	**$ 2,664**	$ 18,683	**$ (955)**	$ 15,196
Investing	**(147)**	(18)	**(1,500)**	(7,285)
	$ 2,517	$ 18,665	**$ (2,455)**	$ 7,911

18. Segmented Information

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

19. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At June 30, 2016, the Company had two joint venture rigs with multi-year contracts. Of these contracts, one is due to expire in 2017 and one in 2018.

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

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

At June 30, 2016, the Company had capital expenditure commitments of $872,000 (June 30, 2015 - $2,171,000 and December 31, 2015 – $1,001,000).

20. Accounting Changes Not Yet Adopted

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

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

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

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

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

Corporate Information

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President, Team Spruce Meadows Inc.
Chairman of the Board,
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Harish K. Mohan
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Karl A. Ruud
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Henry G. Wilmot
Corporate Director,
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Charles W. Wilson
Corporate Director,
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Officers

Raymond T. Coleman
Senior Vice President

Colin A. Dease
Corporate Secretary

Fred O. Hensel
Vice President, Marketing

Craig W. Kushner
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Share Symbol / TSX

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

Website

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