Interim report for 6 months
ended June 30, 2017

Letter to the Shareowners

AKITA Drilling Ltd.'s net loss for the three months ended June 30, 2017, was $4,491,000 (net loss of $0.25 per share basic and diluted) on revenue of $17,986,000 compared to a net loss of $4,062,000 (net loss of $0.23 per share basic and diluted) on revenue of $3,646,000 for the corresponding period of 2016. Funds flow from operations increased to $3,254,000 in the second quarter of 2017 from $2,688,000 in the corresponding period of 2016.

AKITA incurred a net loss of $9,466,000 for the six months ended June 30, 2017, ($0.53 per share basic and diluted) on revenue of $37,179,000 compared to net earnings of $14,111,000 ($0.79 per share basic and diluted) on revenue of $45,636,000 ($17,386,000 from direct operations and $28,250,000 from contract cancellation revenue) in the comparative period in 2016. Funds flow from operations for the January to June period of 2017 was $5,078,000 compared to $28,071,000 for the same period in 2016.

Improving crude oil prices beginning in the second quarter of 2016 and continuing through the first quarter of 2017 had a positive effect on activity in the drilling industry. In response to this increase in activity, management's focus for the six months ended June 30, 2017, has been to improve the Company's utilization with more rigs and employees working. AKITA's rig utilization increased to 37% for the 6 months ended June 30, 2017, from 13% in the corresponding period of 2016. AKITA's focus on increasing its rig utilization had some downside, as rates in the drilling market continue to be at the bottom range of the cycle impacting margins, which were significantly lower year-to-date in 2017, compared to the same period in 2016.

AKITA is committed to maintaining its significant market share in heavy oil and the Montney/Duvernay areas and also to retain our loyal labour force through difficult market conditions. Management's focus for the balance of the year will be on maintaining AKITA's financial strength through prudent capital management and cost controls. Management is not anticipating a significant upside in the drilling industry in the near term, however it has positioned AKITA to grow shareowner value by capitalizing on opportunities as they arise such as upgrading its fleet and delivering a new AC pad rig in the third quarter of 2017.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

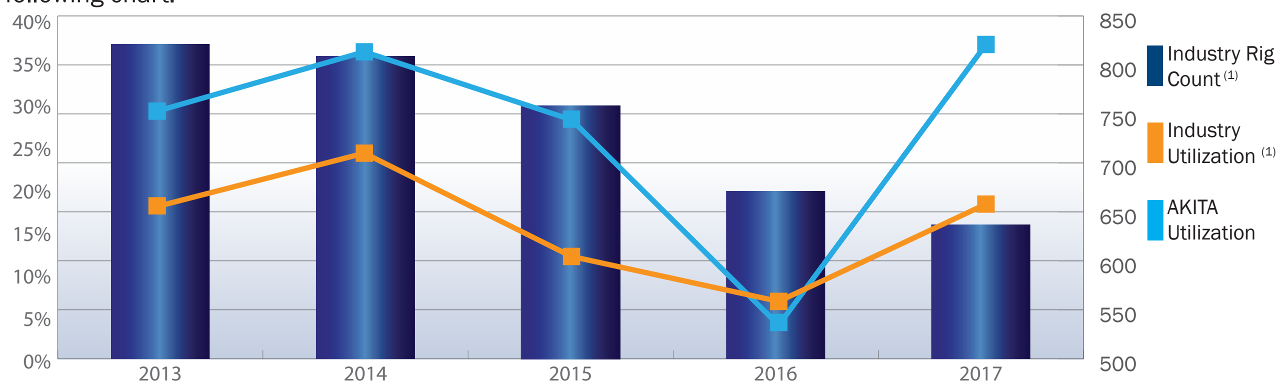
Management's Discussion & Analysis

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, 2017, and the audited consolidated financial statements and MD&A for the year ended December 31, 2016. References made to 2016 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 28, 2017 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.

Introduction and General Overview

Activity levels in the contract drilling industry are highly correlated to the market prices of crude oil and natural gas. The average West Texas Intermediate crude oil prices for the six months ended June 30, 2017, increased 16% compared to the same period in 2016. Natural gas prices, per Alberta Energy Company (AECO) spot prices, have followed a similar pattern with an increase of 23% in the average price of natural gas for the first 6 months of 2017 compared to the first 6 months in 2016. The increase in both crude oil and natural gas prices had a positive effect on drilling activity in the western Canadian sedimentary basin, as highlighted in the following chart.



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

Despite the higher activity levels, however, day rates in the drilling industry remain at the bottom range of the cycle as the demand for drilling rigs has not caught up to the supply of rigs available. The impact of these low day rates on the Company's results is detailed subsequently in this MD&A.

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 road bans on public roads typically characterize the second quarter. AKITA's second quarter in 2017 was only slightly less active than the first quarter of 2017 due to the number of pad rigs working which are less impacted by road bans than conventional rigs.

The following table summarizes second quarter and year-to-date utilization for AKITA and industry for 2017 and 2016:

	Three Months Ended June 30		Six Months Ended June 30	
Utilization rates expressed in percentages	**AKITA**	Industry[1]	**AKITA**	Industry[1]
2017	**36.5**	17.7	**37.3**	28.3
2016	**4.3**	7.0	**12.8**	14.2

(1) Source: CAODC

During the second quarter of 2017, AKITA's utilization exceeded industry utilization as it typically does due to the high percentage of the Company's rig fleet being pad rigs compared to the industry. Pad rigs can generally drill through spring break-up provided they are already on a pad before road bans begin. Triple pad rigs accounted for 92% of AKITA's operating days for the second quarter of 2017. For the six months ended June 30, 2017, 70% of the Company's operating days were from triple pad rigs, 6% from double pad rigs, 9% from conventional double rigs and 15% from conventional single rigs.

Fleet and Rig Utilization

At June 30, 2017, AKITA had 28 drilling rigs, including eight that operated under joint ventures (26.750 net to AKITA), compared to 31 rigs (28.225 net) in the corresponding period of 2016 (five rigs decommissioned and two added). There were no changes to AKITA's rig fleet during the first 6 months of 2017.

	Three Months Ended June 30				Six Months Ended June 30			
	2017	2016	Change	% Change	**2017**	2016	Change	% Change
Operating days	**931**	121	810	669%	**1,892**	719	1,173	163%
Utilization rate	**36.5%**	4.3%	32.2	749%	**37.3%**	12.8%	24.5	191%

Revenue and Operating & Maintenance Expenses

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Revenue per interim financial statements	**18.0**	3.6	14.4	400%	**37.2**	45.6	(8.4)	(18%)
Proportionate share of revenue from joint ventures [1]	**7.3**	1.3	6.0	462%	**13.4**	7.0	6.4	91%
Contract cancellation revenue	**-**	-	-	-	**-**	(28.3)	28.3	100%
Adjusted revenue [1]	**25.3**	4.9	20.4	416%	**50.6**	24.3	26.3	108%

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Operating & maintenance expenses per interim financial statements	**14.6**	1.5	13.1	873%	**32.4**	10.6	21.8	206%
Proportionate share of operating & maintenance expenses from joint ventures [1]	**5.3**	0.9	4.4	489%	**9.3**	4.1	5.2	127%
Adjusted operating & maintenance expenses [1]	**19.9**	2.4	17.5	729%	**41.7**	14.7	27.0	184%

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	2017	2016	Change	% Change	2017	2016	Change	% Change
Adjusted revenue [1]	25.3	4.9	20.4	416%	50.6	24.3	26.3	108%
Adjusted operating & maintenance expenses [1]	19.9	2.4	17.5	729%	41.7	14.7	27.0	184%
Adjusted operating margin [1][2]	5.4	2.5	2.9	116%	8.9	9.6	(0.7)	(7%)

	Three Months Ended June 30				Six Months Ended June 30			
$Dollars	2017	2016	Change	% Change	2017	2016	Change	% Change
Adjusted revenue per operating day [1]	27,142	41,025	(13,883)	(34%)	26,748	33,903	(7,154)	(21%)
Adjusted operating & maintenance expenses per operating day [1]	21,434	19,694	1,740	9%	22,039	20,417	1,622	8%
Adjusted operating margin per operating day [1][2]	5,708	21,331	(15,623)	(73%)	4,709	13,486	(8,776)	(65%)

(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-GAAP financial measures. See commentary in "Basis of Analysis in this MD&A, Non-GAAP 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 2017, adjusted revenue increased to $25,269,000 ($27,142 per operating day compared to $4,964,000 ($41,025 per operating day) during the second quarter of 2016 as a result of increased drilling activity in the industry. The decrease in adjusted revenue per operating day reflects the current pricing environment in the industry where rates in the bottom range of the cycle are required to put rigs to work. The effect of day rates on the mix of the rigs working in the second quarter of 2017 compared to the same period in 2016 was minimal, as essentially all drilling days were generated by pad triple rigs.

Adjusted operating and maintenance costs are tied to operating days and amounted to $19,955,000 ($21,434 per operating day) during the second quarter of 2017 compared to $2,383,000 ($19,694 per operating day) in the same period of the prior year. The increase in operating and maintenance costs, on a total basis, resulted from increased drilling activity, while the increase on a "per operating day" basis, resulted from more rigs that required larger crews and second rig managers in the second quarter of 2017 compared to the same period in 2016.

The adjusted operating margin for the Company increased to $5,314,000 in the second quarter of 2017 from $2,581,000 during the corresponding quarter of 2016. The increase in adjusted operating margin is a direct result of increased drilling activity as AKITA's operating days increased 669% in the second quarter of 2017 compared to the same period in 2016. On a "per operating day" basis, adjusted operating margin decreased to $5,708 in the second quarter of 2017 from $21,331 in the comparative period of 2016. The decrease was a result of the lower day rates discussed above with no corresponding reduction in operating costs per operating day.

Year-to-Date Comparatives

During the first six months of 2017, adjusted revenue increased to $50,608,000 from $24,376,000 during the first six months of 2016 as a result of higher drilling activity. Adjusted revenue per operating day decreased to $26,748 during the first six months of 2017 from $33,903 in the comparative six month period of 2016. This decrease is due mainly to a higher percentage of the rigs in 2016 working under term contracts compared to 2017 where most rigs were working for market rates which, due to increased competition in the drilling industry, are at the bottom range of the cycle.

Adjusted operating and maintenance costs are tied to operating days and amounted to $41,698,000 ($22,039 per operating day) during the first six months of 2017 compared to $14,680,000 ($20,417 per operating day) in the same period of the prior year. The increase on a "per operating day" basis is a result of higher maintenance costs due to more rigs starting up in the first half of 2017 compared to the same period in 2016.

The adjusted operating margin for the Company decreased to $8,910,000 in the first six months of 2017 from $9,696,000 during the corresponding period of 2016. On a "per operating day" basis, adjusted operating margin decreased to $4,709 for the six months ended June 30, 2017, from $13,486 in the corresponding period of 2016. This decrease in margin per operating day is a result of the pricing pressure noted above.

Depreciation and Amortization Expense

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	2017	2016	Change	% Change	2017	2016	Change	% Change
Depreciation and amortization expense	7.7	5.4	2.3	42.6%	14.5	11.7	2.8	23.9%

Depreciation and amortization expense increased to $7,735,000 in the second quarter of 2017 compared to $5,384,000 in the corresponding period of 2016. As AKITA depreciates its rig fleet on a unit of production basis, the increase in the depreciation and amortization expense is directly related to the 669% increase in the number of operating days when comparing the second quarter of 2017 to the corresponding period of 2016. On a "per operating day" basis depreciation in the second quarter of 2017 ($8,308 per operating day) was significantly lower than the second quarter of 2016 ($44,496 per operating day), as rigs that do not operate are subject to minimum annual depreciation.

Depreciation and amortization expense for the first six months of 2017 totalled $14,471,000 compared to $11,659,000 for the corresponding period in 2016. As with the depreciation and amortization expense for the second quarter, higher rig activity levels were the driver behind the higher depreciation and amortization expense in 2017 to date. In the first six months of 2017, drilling rig depreciation accounted for 97% of total depreciation and amortization expense (2016 - 95%).

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 venture activities.

Selling and Administrative Expenses

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	2017	2016	Change	%Change	2017	2016	Change	%Change
Selling & administrative expenses per interim financial statements	3.4	3.0	0.4	13%	7.4	7.0	0.4	6%
Proportionate share of selling & administrative expenses from joint ventures (1)	0.1	0.0	0.1	100%	0.2	0.1	0.1	100%
Adjusted selling & administrative expenses (1)	3.5	3.0	0.5	17%	7.6	7.1	0.5	7%

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

Adjusted selling and administrative expenses were 14% of adjusted revenue in the first six months of 2017 compared to 29% of adjusted revenue in the first six months of 2016. The decrease in selling and administrative expenses when compared to adjusted revenue is a result of increased adjusted revenue and 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 54% of these expenses (2016 - 57%).

Equity Income from Joint Ventures

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	2017	2016	Change	%Change	2017	2016	Change	%Change
Proportionate share of revenue from joint ventures (1)	7.3	1.3	6.0	462%	13.4	7.0	6.4	91%
Proportionate share of operating & maintenance expenses from joint ventures (1)	5.3	0.9	4.4	489%	9.3	4.1	5.2	127%
Proportionate share of selling and administrative expenses from joint ventures (1)	0.1	0.0	0.1	100%	0.2	0.1	0.1	100%
Equity income from joint ventures per interim financial statements	1.9	0.4	1.5	383%	3.9	2.8	1.1	39%

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

Other Income (Loss)

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Total other income (loss)	**0.2**	0.3	(0.1)	(33%)	**0.3**	0.3	0.0	0%

Interest income decreased to $231,000 in the first six months of 2017 from $493,000 in the corresponding period in 2016 primarily due to accrued interest ($394,000) on receivable balances related to a contract cancellation that occurred in the first quarter of 2016. The remaining balance of interest income is interest on cash and term deposit balances.

During the first six months of 2017, the Company incurred interest expense of $84,000 (2016 - $80,000) related to the future cost of the Company's defined benefit pension plan.

During the first six months of 2017, the Company sold some ancillary assets for $167,000 (2016 - $125,000) that resulted in a gain of $140,000 (2016 - $30,000).

Income Tax Expense

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Current tax expense (recovery)	**(1.0)**	(2.6)	1.6	62%	**(3.0)**	3.5	(6.5)	(186%)
Deferred tax expense (recovery)	**(0.3)**	1.1	(1.4)	(127%)	**(0.3)**	1.9	(2.2)	(116%)
Income tax expense (recovery)	**(1.3)**	(1.5)	0.2	13%	**(3.3)**	5.4	(8.7)	(161%)

Income tax expense (recovery) decreased to a recovery of $3,343,000 in the first six months of 2017 from an expense of $5,426,000 in the corresponding period in 2016 mainly due to higher pre-tax earnings resulting from the contract cancellation revenue recorded in the first quarter of 2016. Deferred taxes for the six months ended June 30, 2017, were lower than the same period in 2016 as the Company incurred higher depreciation expense in the first half of 2017 compared to the first half of 2016.

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

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Net income (loss)	**(4.5)**	(4.1)	(0.4)	(10%)	**(9.5)**	14.1	(23.6)	(167%)
Funds flow from operations [1]	**3.3**	2.7	0.6	22%	**5.1**	28.1	(23.0)	(82%)

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

During the three months ended June 30, 2017, the Company reported a net loss of $4,491,000 or $0.25 per Class A Non-Voting and Class B Common Share (basic and diluted) compared to a net loss of $4,062,000 or $0.23 per share (basic and diluted) in the comparative quarter of 2016. Lower operating margins per operating day and increased depreciation expense were the primary factors for the increased loss in 2017.

Funds flow from operations increased to $3,254,000 during the second quarter of 2017 from $2,688,000 in the corresponding quarter in 2016 due to increased activity in 2017.

The Company incurred a net loss of $9,466,000 or $0.53 per Class A Non-Voting and Class B Common Shares (basic and diluted) for the first six months of 2017 compared to net income of $14,111,000 or $0.79 per share (basic and diluted) in the corresponding period of 2016. Funds flow from operations decreased to $5,078,000 during the first six months of 2017 from $28,071,000 in the corresponding period in 2016. The decrease in both net income and funds flow for the six month period ended June 30, 2017, was attributable to the contract cancellation revenue recorded in the first quarter of 2016 as well as lower day rates.

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

	Three Months Ended June 30				Six Months Ended June 30			
$Millions	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Funds flow from operations [1]	**3.2**	2.7	0.5	19%	**5.1**	28.0	(22.9)	(82%)
Change in non-cash working capital	**3.1**	2.7	0.4	15%	**8.6**	(4.2)	12.8	307%
Equity income from joint ventures	**(1.8)**	(0.4)	(1.4)	(350%)	**(3.9)**	(2.8)	(1.1)	(39%)
Change in long-term receivable	**0.0**	(0.1)	0.1	100%	**0.0**	(9.4)	9.4	100%
Current income tax expense (recovery)	**(1.0)**	(2.7)	1.7	63%	**(3.0)**	3.5	(6.5)	(186%)
Net cash from operating activities	**3.4**	2.2	1.2	55%	**6.8**	15.1	(8.3)	(55%)

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

Liquidity and Capital Resources

Cash used for capital expenditures totalled $12,202,000 in the first six months of 2017 (2016 - $1,530,000). Year-to-date in 2017, 42% of capital expenditures relate to costs incurred to construct a double pad drilling rig that is expected to be completed in the third quarter. The rest of the capital spending in 2017 year-to-date relates to routine capital items as did all capital spending in the first six months of 2016.

At June 30, 2017, AKITA's Statements of Financial Position included working capital (current assets minus current liabilities) of $24,557,000 compared to $31,373,000 at June 30, 2016, and $34,907,000 at December 31, 2016. 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 $16,951,000 at June 30, 2017, compared to non-cash working capital of $20,675,000 at December 31, 2016. Note that the non-cash working capital amount at December 31, 2016, included $20,068,000 in accounts receivable related to contract cancellation compared to $9,990,000 at June 30, 2017. Working capital at June 30, 2017, decreased compared to June 30, 2016, as a result of increased capital spending by the Company as noted above.

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, the Company has an operating loan facility with its principal banker totalling $50,000,000 that is available until 2020. 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 is 1.25% over prime interest rate or 2.5% over guaranteed notes, depending on the preference of the Company. The Company did not have any borrowings from this facility at June 30, 2017, or at any time during 2016.

The Company's objectives when managing capital are:

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

During the 10 year period since 2007, AKITA has repurchased and cancelled 443,208 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 one drilling rig under a multi-year contract at June 30, 2017, which is due to expire 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, 2017, AKITA provided $2,253,000 in deposits with its bank for those purposes (June 30, 2016 - $4,792,000 and December 31, 2016 - $2,969,000). 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
2017				
Revenue	**19,193**	**17,986**		
Net loss	**(4,975)**	**(4,491)**		
Loss per share (basic and diluted) ($)	**(0.28)**	**(0.25)**		
Funds flow from operations (1)	**1,824**	**3,254**		
Net cash from operating activities	**3,399**	**3,407**		
2016				
Revenue	41,911	3,646	6,616	8,808
Net income (loss)	18,173	(4,062)	(4,668)	(4,114)
Earnings (loss) per share (basic and diluted) ($)	1.01	(0.23)	(0.26)	(0.23)
Funds flow from operations (1)	25,368	2,688	2,197	4,247
Net cash from (used in) operating activities	12,843	2,219	(2,158)	(1,012)
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 and diluted) ($)	0.23	(0.09)	(0.42)	(1.61)
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

(1) Funds flow from operations is an additional GAAP measure under IFRS. See commentary in "Basis of Analysis in this MD&A, Non-GAAP 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. However, activity levels are showing signs of improvement in the first and second quarters of 2017 in relation to the corresponding periods of 2016;
- Adjusted operating margin per operating day [2], which impacts both net income and funds flow from operations [1], has been decreasing since 2015 due to more competitive market conditions driven by lower commodity prices. This trend to lower adjusted operating margin per operating day [2] accelerated throughout 2015 and into 2016 and has not improved so far in 2017; 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 was related to the contract cancellation revenue recorded in the first quarter of 2016.

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

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

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.

Optimism that began in the fourth quarter of 2016 around a recovery in crude oil and natural gas prices has begun to fade. Oil prices have fallen from the recent peak that was reached in February of 2017 and the near term and long term future of oil prices remains very uncertain. This increased uncertainty is causing operators to reassess how much of their remaining 2017 capital programs they will spend. Some operators have cut drilling programs which in turn will limit the opportunities for drilling contractors to put rigs to work and will maintain pressure on day rates, resulting in continued low margins.

Despite the challenges that the remainder of 2017 may bring, management believes the Company is well positioned to remain competitive in the current market. Eighty percent of the Company's rigs have worked in the last 9 months and therefore, rig start-up costs should be less for the balance of the year. AKITA's newest AC pad rig will begin operations in the third quarter of 2017. This heavy AC double pad drilling rig is well suited for both the Montney formation and heavy oil drilling. Management is confident that the high-efficiency modern rigs in AKITA's fleet will continue to be in demand and will allow AKITA to remain financially strong throughout this extended recovery while it continuously looks for growth opportunities that may complement AKITA's existing operations.

Accounting Changes Not Yet Adopted

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

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

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

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

There are no other standards 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.

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

The Company reports its joint venture activities in the financial statements in accordance with 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 Joint 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 Joint 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-GAAP financial measures ("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.

Adjusted operating margin, adjusted revenue per operating day, adjusted operating and maintenance expenses per operating day and adjusted operating margin per operating day are not recognized GAAP measures under International Financial Reporting Standards ("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 expense, overhead expenses, financing costs and income taxes. Management and certain investors may find "per operating day" measures for adjusted revenue and adjusted operating margin indicate pricing strength while adjusted 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 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 item 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, equity income from joint ventures, and income tax amounts paid or recovered 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.

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, 2017, 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 June 30, 2017.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended June 30, 2017, 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, 2017	June 30, 2016	December 31, 2016
Assets				
Current assets				
Cash and cash equivalents	Note 5	**$7,606**	$22,573	$14,250
Accounts receivable	Note 6	**21,989**	12,269	28,220
Income taxes recoverable		**5,405**	-	2,356
Prepaid expenses and other		**705**	491	74
		35,705	35,333	44,900
Non-current assets				
Long-term receivable		**-**	9,442	-
Restricted cash	Note 7	**2,253**	4,792	2,969
Other long-term assets		**858**	957	894
Investments in joint ventures	Note 8	**4,213**	3,774	3,252
Property, plant and equipment	Note 9	**203,682**	206,483	205,892
Total Assets		**$ 246,711**	$ 260,781	$ 257,907
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**$9,623**	$2,187	$8,468
Dividends payable	Note 10	**1,525**	1,525	1,525
Income taxes payable		**-**	248	-
		11,148	3,960	9,993
Non-current liabilities				
Financial instruments	Note 6	**22**	77	41
Deferred income taxes	Note 11	**23,408**	21,099	23,702
Deferred share units	Note 12	**368**	216	222
Pension liability		**4,480**	3,965	4,303
Total liabilities		**39,426**	29,317	38,261
Shareholder's Equity				
Class A and Class B shares	Note 13	**23,871**	23,871	23,871
Contributed surplus		**4,440**	4,149	4,285
Accumulated other comprehensive loss		**(366)**	(244)	(366)
Retained earnings		**179,340**	203,688	191,856
Total equity		**207,285**	231,464	219,646
Total Liabilities and Equity		**$ 246,711**	$ 260,781	$ 257,907

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

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

Unaudited $Thousands		Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenue	Note 14	**$ 17,986**	$ 3,646	**$ 37,179**	$ 45,636
Costs and Expenses					
Operating and maintenance		**14,632**	1,464	**32,367**	10,618
Depreciation and amortization	Note 9	**7,735**	5,384	**14,471**	11,659
Selling and administrative		**3,409**	3,037	**7,387**	6,999
Total costs and expenses		**25,776**	9,885	**54,225**	29,276
Revenue less costs and expenses		**(7,790)**	(6,239)	**(17,046)**	16,360
Equity Income from Joint Ventures	Note 8	**1,849**	389	**3,911**	2,844
Other Income (Loss)					
Interest income		**111**	245	**231**	493
Interest expense		**(42)**	(40)	**(84)**	(80)
Gain on sale of assets		**64**	57	**140**	30
Net other gains (losses)		**20**	57	**39**	(110)
Total other income		**153**	319	**326**	333
Income (loss) before income taxes		**(5,788)**	(5,531)	**(12,809)**	19,537
Income Taxes	Note 11	**(1,297)**	(1,469)	**(3,343)**	5,426
Net Income (Loss) and Comprehensive Income (Loss) for the Period Attributable to Shareholders		**$ (4,491)**	$ (4,062)	**$ (9,466)**	$ 14,111
Earnings (Loss) per Class A and Class B Share	Note 15				
Basic		**$ (0.25)**	$ (0.23)	**$ (0.53)**	$ 0.79
Diluted		**$ (0.25)**	$ (0.23)	**$ (0.53)**	$ 0.79

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

Interim Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Shareholders of the Company						
Unaudited $Thousands	Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
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
Net loss for the period	-	-	-	-	-	(8,782)	(8,782)
Remeasurement of pension liability	-	-	-	-	(122)	-	(122)
Stock options charged to expense	-	-	-	136	-	-	136
Dividends	-	-	-	-	-	(3,050)	(3,050)
Balance at December 31, 2016	$ 22,505	$ 1,366	$ 23,871	$ 4,285	$ (366)	$ 191,856	$ 219,646
Net loss for the period	-	-	-	-	-	(9,466)	(9,466)
Stock options charged to expense	-	-	-	155	-	-	155
Dividends	-	-	-	-	-	(3,050)	(3,050)
Balance at June 30, 2017	**$ 22,505**	**$ 1,366**	**$ 23,871**	**$ 4,440**	**$ (366)**	**$ 179,340**	**$ 207,285**

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

Interim Consolidated Statements of Cash Flows

Unaudited $Thousands		Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating Activities					
Net income (loss) and comprehensive income (loss)		$ (4,491)	$ (4,062)	$ (9,466)	$ 14,111
Non-cash items included in net income (loss):					
Depreciation and amortization	Note 9	7,735	5,384	14,471	11,659
Deferred income taxes expense (recovery)	Note 11	(265)	1,148	(294)	1,896
Defined benefit pension plan expense		112	107	225	216
Stock options and deferred share units expense	Note 12	236	187	301	259
Gain on sale of assets		(64)	(57)	(140)	(30)
Unrealized gain on financial guarantee contracts		(9)	(19)	(19)	(40)
Funds flow from operations		3,254	2,688	5,078	28,071
Change in non-cash working capital	Note 17	3,058	2,664	8,736	(4,234)
Equity income from joint ventures	Note 8	(1,849)	(389)	(3,911)	(2,844)
Change in long-term receivable		-	(119)	-	(9,442)
Post-employment benefits		(24)	(7)	(48)	(15)
Interest paid		-	(1)	-	(1)
Current income tax expense (recovery)	Note 11	(1,032)	(2,617)	(3,049)	3,530
Income taxes paid		-	-	-	(3)
Net cash from operating activities		3,407	2,219	6,806	15,062
Investing Activities					
Capital expenditures	Note 9	(7,615)	(1,157)	(12,202)	(1,530)
Change in non-cash working capital related to capital	Note 17	504	(147)	(1,981)	(1,500)
Net distributions from investments in joint ventures	Note 8	1,889	559	2,950	3,011
Change in cash restricted for loan guarantees		360	525	716	1,186
Change in term deposits		-	16,000	-	-
Proceeds on sale of assets		87	65	167	125
Net cash from (used in) investing activities		(4,775)	15,845	(10,350)	1,292
Financing Activities					
Dividends paid	Note 10	(1,525)	(1,525)	(3,050)	(3,050)
Loan commitment fee		-	-	(50)	(100)
Net cash used in financing activities		(1,525)	(1,525)	(3,100)	(3,150)
Increase (decrease) in cash and cash equivalents		(2,893)	16,539	(6,644)	13,204
Cash and cash equivalents, beginning of period		10,499	6,034	14,250	9,369
Cash and Cash Equivalents, End of Period		$ 7,606	$ 22,573	$ 7,606	$ 22,573

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

Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2017 and June 30, 2016 (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 28 drilling rigs (26.75 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, 2017 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, 2016, 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 28, 2017, 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 2016 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

No asset impairment indicators were noted and no asset impairment expense was recognized for the six months ended June 30, 2017 (Q2 2016 - nil).

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. 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, 2017, drilling rig depreciation could be either increased or decreased by $1,398,000 (Q2 2016 - $1,108,000).

Defined Benefit Pension Liability

Significant estimates used in the preparation of AKITA's interim financial statements relate to the measurement of the non-current defined benefit pension liability for selected current and retired employees that was recorded as $4,480,000 at June 30, 2017 (June 30, 2016 - $3,965,000 and December 31, 2016 - $4,303,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2017, a key assumption is the 3.6% discount rate (2016 – 3.9%). 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 measurement of the Company's defined benefit pension liability.

Deferred Income Taxes

The Company makes assumptions relating to the measurement of deferred income taxes, including future tax rates, timing of reversals of timing differences and the anticipated tax rules that will be in place when timing differences reverse.

Incomplete Transactions at Period End

The Company makes assumptions relating to transactions that were incomplete at the Statements 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

Cash and cash equivalents is comprised of the following:

$Thousands	June 30, 2017	June 30, 2016	December 31, 2016
Cash	$ 7,606	$ 4,565	$ 5,729
Short-term bank deposits	-	18,008	8,521
Cash and cash equivalents	$ 7,606	$ 22,573	$ 14,250

6. Financial Instruments

Operating Loan Facility

The Company has an operating loan facility with its principal banker. The facility totals $50,000,000 with the term ending in 2020.

At June 30, 2017, June 30, 2016 and December 31, 2016 the Company had not drawn on its loan facility.

The interest rate on the facility is 1.25% over prime interest rates or 2.50% 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.

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 $22,000 (June 30, 2016 - $77,000 and December 31, 2016 - $41,000). The fair value measurement of the financial guarantee benefit 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, liquidity risk, commodity risk, foreign currency risk and interest rate risk.

Credit risk

The credit risk associated with accounts receivable is generally considered low since the Company has conservative 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 2016, one of AKITA's customers canceled a multi-year contract that was scheduled to continue to 2019. To date, AKITA has received $19,372,000 in contract cancellation revenue with the final payment of $9,990,000 included in the June 30, 2017 accounts receivable balance.

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, 2017	June 30, 2016	December 31, 2016
Within 30 days	$ 10,430	$ 1,697	$ 6,726
31 to 60 days	1,167	1,014	1,203
61 to 90 days	80	-	269
Over 90 days	378	-	4
Allowance for doubtful accounts	(56)	(56)	(50)
Total trade accounts receivable	11,999	2,655	8,152
Contract cancellaton receivable	9,990	9,614	20,068
Accounts receivable	$ 21,989	$ 12,269	$ 28,220

Liquidity risk

The Company is exposed to liquidity risk through its working capital balance. At June 30, 2017, this risk was limited by having positive cash flows from operations, maintaining a moderate cash and cash equivalent balance and a banking facility 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.

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. Management has estimated that a 1% change in the USD exchange rate would not have had a material impact on the Company's statement of net income.

Interest rate risk

The Company is exposed to interest rate risk through its operating loan facility and through its investment in short-term bank deposits.

7. Restricted Cash

$Thousands	June 30, 2017	June 30, 2016	December 31, 2016
Balance held in term deposits	$ 2,253	$ 4,792	$ 2,969

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 $2,253,000 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 13 different Aboriginal and First Nations groups with equity investments in eight 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 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 Sahtu Joint Venture 51	Canada	50% (1)
Akita Equtak Joint Venture 60	Canada	50% (1)
Akita Equtak Joint Venture 61	Canada	50%
Akita Equtak Joint Venture 63	Canada	50% (1)

(1) *At December 31, 2016, rigs 51, 60, and 63 were delisted with the Canadian Association of Oilwell Drilling Contractors. The related joint ventures have continuing operations as the Company and its joint venture partners continue to jointly own the rig assets.*

Continuity of Investments in Joint Ventures

$Thousands	Investments in Joint Ventures
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
Net income for the six month period ended December 31, 2016	3,220
Distributions for the six month period ended December 31, 2016	(2,236)
Divestiture of investments in joint ventures	(1,506)
Balance as at December 31, 2016	3,252
Net income for the six month period ended June 30, 2017	**3,911**
Distributions for the six month period ended June 30, 2017	**(2,950)**
Balance as at June 30, 2017	**$ 4,213**

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.

	June 30, 2017			June 30, 2016		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Cash	$ 1,915	$ 462	$ 2,377	$ 1,514	$ 556	$ 2,070
Other current assets	4,825	1,021	5,846	3,318	588	3,906
Non-current assets	55	-	55	55	-	55
Total assets	6,795	1,483	8,278	4,887	1,144	6,031
Current liabilities	2,582	603	3,185	1,113	239	1,352
Net Assets	$ 4,213	$ 880	$ 5,093	$ 3,774	$ 905	$ 4,679

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Revenue	$ 13,429	$ 3,042	$ 16,471	$ 6,989	$ 1,472	$ 8,461
Net Income and Comprehensive Income	$ 3,911	$ 801	$ 4,712	$ 2,844	$ 544	$ 3,388

9. Property, Plant and Equipment

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Additions	-	11,536	127	11,663
Disposals	-	(5,556)	-	(5,556)
Balance as at December 31, 2016	4,302	405,935	7,964	418,201
Additions	**-**	**12,010**	**192**	**12,202**
Disposals	**-**	**(8,142)**	**(129)**	**(8,271)**
Balance as at June 30, 2017	**$ 4,302**	**$ 409,803**	**$ 8,027**	**$ 422,132**

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2015	$ 1,273	$ 194,446	$ 6,312	$ 202,031
Disposals	-	(7,550)	(469)	(8,019)
Depreciation expense	39	11,082	478	11,599
Balance as at June 30, 2016	1,312	197,978	6,321	205,611
Disposals	-	(5,538)	-	(5,538)
Depreciation expense	39	11,746	451	12,236
Balance as at December 31, 2016	1,351	204,186	6,772	212,309
Disposals	**-**	**(8,124)**	**(119)**	**(8,243)**
Depreciation expense	**37**	**13,975**	**372**	**14,384**
Balance as at June 30, 2017	**$ 1,388**	**$ 210,037**	**$ 7,025**	**$ 218,450**

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
As at December 31, 2015	$ 3,029	$ 211,616	$ 2,002	$ 216,647
As at June 30, 2016	$ 2,990	$ 201,977	$ 1,516	$ 206,483
As at December 31, 2016	$ 2,951	$ 201,749	$ 1,192	$ 205,892
As at June 30, 2017	**$ 2,914**	**$ 199,766**	**$ 1,002**	**$ 203,682**

The Company had $12,327,000 in Property, Plant and Equipment that was not being depreciated as these assets were under construction as at June 30, 2017 (June 30, 2016 - $380,000 and December 31, 2016 – $2,420,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $87,000 for the six month period ended June 30, 2017 (June 30, 2016 - $60,000).

10. Dividends

The following table provides a history of dividends for 2016 and 2017 to date:

Declaration Date	Payment Date	Per Share	Total ($000's)
March, 2016	April, 2016	$ 0.085	$ 1,525
May, 2016	July, 2016	$ 0.085	$ 1,525
August, 2016	October, 2016	$ 0.085	$ 1,525
November, 2016	January, 2017	$ 0.085	$ 1,525
March, 2017	**April, 2017**	**$ 0.085**	**$ 1,525**
May, 2017	**July, 2017**	**$ 0.085**	**$ 1,525**

11. Income Taxes

Income taxes are comprised of the following:

	Three Months Ended		Six Months Ended	
$Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Current tax expense (recovery)	**$ (1,032)**	$ (2,617)	**$ (3,049)**	$ 3,530
Deferred tax expense (recovery)	**(265)**	1,148	**(294)**	1,896
Total Income tax expense (recovery)	**$ (1,297)**	$ (1,469)	**$ (3,343)**	$ 5,426

The following table reconciles the income tax expense using a weighted average Canadian federal and provincial tax rate of 26.88% (2016 – 26.94%) to the reported tax expense. The reduction in the weighted average rate is a result of more of the Company's revenue being generated in provinces with lower tax rates compared to the same period in the prior year. 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 financial statements.

	Three Months Ended		Six Months Ended	
$Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Income (loss) before income taxes	**$ (5,788)**	$ (5,531)	**$ (12,809)**	$ 19,537
Expected income tax expense (recovery) at the statutory rate	**(1,555)**	(1,490)	**(3,443)**	5,263
Add (deduct):				
Change in future income tax rates	**83**	7	**(63)**	145
Permanent differences	**36**	47	**66**	80
Rate difference on loss carry back	**174**	-	**174**	-
Other	**(35)**	(33)	**(77)**	(62)
Total income tax expense (recovery)	**$ (1,297)**	$ (1,469)	**$ (3,343)**	$ 5,426

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	Defined Benefit Pension Plan Benefits	Other	Total
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
Charged (credited) to the statement of net income (loss)	2,668	(46)	25	2,647
Credited to other comprehensive income	-	(44)	-	(44)
Balance as at December 31, 2016	24,386	(1,183)	499	23,702
Credited to the statement of net income (loss)	**(185)**	**(44)**	**(65)**	**(294)**
Balance as at June 30, 2017	**$ 24,201**	**$ (1,227)**	**$ 434**	**$ 23,408**

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, 2017	June 30, 2016	December 31, 2016
Reserved under the current stock option plan [1]	**3,100,000**	3,100,000	3,100,000
Available for issuance at beginning of the period	**818,500**	1,016,000	1,016,000
Granted during the period	**(97,500)**	(197,500)	(197,500)
Available for future issuance	**721,000**	818,500	818,500

[1] *The number of shares reserved under the current stock option plan (May 14, 1998 to present) was revised in May 2017 to include the shares reserved under the Company's initial stock option plan (January 1, 1993 to May 14, 1998).*

A summary of the status of the Company's stock option plans as of June 30, 2017 and 2016, and changes during the periods ended on those dates is presented below:

	2017		2016	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Options outstanding at January 1	**879,500**	**$ 10.83**	682,000	$ 11.09
Granted	**97,500**	**$ 8.26**	197,500	$ 7.13
Options outstanding at June 30	**977,000**	**$ 10.57**	879,500	$ 10.83
Granted			-	-
Options outstanding at December 31			879,500	$ 10.83

	2017		2016	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Options exercisable at June 30	**666,000**	**$ 10.95**	549,500	$ 11.05
Options exercisable at December 31			586,000	$ 11.32

The following table summarizes outstanding stock options at June 30:

		2017			2016		
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**	**2.8**	**150,000**	150,000	3.8	150,000
3	$ 10.32	**6,000**	**3.7**	**6,000**	6,000	4.7	6,000
6	$ 10.32	**91,000**	**3.7**	**91,000**	91,000	4.7	91,000
5	$ 10.86	**97,500**	**4.7**	**97,500**	97,500	5.7	97,500
5	$ 13.81	**102,500**	**6.1**	**82,000**	102,500	7.2	71,500
5	$ 16.02	**130,000**	**7.1**	**78,000**	130,000	8.2	52,000
5	$ 10.28	**105,000**	**7.8**	**63,000**	105,000	8.8	42,000
5	$ 7.13	**197,500**	**8.8**	**79,000**	197,500	9.8	39,500
5	$ 8.26	**97,500**	**9.8**	**19,500**			
Weighted Average Contractual Life			**6.4**			7.1	

(b) Deferred Share Units

A summary of the Company's deferred share unit plan as of June 30, 2017 and 2016, and changes during the periods ended on those dates is presented below:

	2017		2016	
	Deferred Share Units (#)	**Fair Value ($000's)**	Deferred Share Units (#)	Fair Value ($000's)
Deferred share units outstanding at January 1	**32,402**	**$ 274**	31,083	$ 211
Granted during the period	**24,706**	**210**	-	-
Redeemed in the period	**(6,134)**	**(52)**	-	-
Issued in lieu of dividends	**531**	**9**	771	5
Change in fair value during the period	**-**	**(73)**	-	51
Deferred share units outstanding at June 30	**51,505**	**$ 368**	31,854	$ 267
Issued in lieu of dividends			548	5
Change in fair value during the period			-	2
Deferred share units outstanding at December 31			32,402	$274

	2017		2016	
	Deferred Share Units (#)	Fair Value ($000's)	Deferred Share Units (#)	Fair Value ($000's)
Deferred share units allocated to:				
Accounts payable and accrued liabilities	-	$ -	6,134	$ 51
Non-current liabilities	51,505	368	25,720	216
Deferred share units outstanding at June 30	51,505	$ 368	31,854	$ 267

(c) Share-based Compensation Expense

	Three Months Ended		Six Months Ended	
$Thousands	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Stock option expense	$ 94	$ 138	$ 155	$ 203
Deferred share unit expense	142	49	146	56
Total share-based compensation expense	$ 236	$ 187	$ 301	$259

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

	2017	2016
Risk-free interest rate	1.10%	0.80%
Expected volatility	32.0%	31.0%
Dividends yield rate	4.2%	4.0%
Contractual life of options	5.4 years	5.4 years
Weighted average fair value	$8.26	$7.13
Forfeiture rate	0.0%	0.0%
Fair value of options	$1.78	$1.47

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, 2016	16,291,877	1,653,784	17,945,661
Shares outstanding at December 31, 2016	16,291,877	1,653,784	17,945,661
Shares outstanding at June 30, 2017	**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 shareholder's option.

In the event that an offer to purchase Class B Common Shares is made to all or substantially all shareholders 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 shareholders of Class A Non-Voting Shares, and shareholders 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 shareholders 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 2017 to date or during 2016.

14. Revenue

Revenue is comprised of the following:

	Three Months Ended		Six Months Ended	
$Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Contract drilling services	**$ 17,986**	$ 3,646	**$ 37,179**	$ 17,386
Contract cancellation revenue	**-**	-	**-**	28,250
Total revenue	**$ 17,986**	$ 3,646	**$ 37,179**	$ 45,636

15. Net Income (Loss) per Share

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Net income (loss) ($Thousands)	**$ (4,491)**	$ (4,062)	**$ (9,466)**	$ 14,111
Weighted average outstanding shares	**17,945,661**	17,945,661	**17,945,661**	17,945,661
Incremental shares for diluted earnings per share calculation	**19,430**	16,803	**26,318**	5,074
Weighted average outstanding shares for diluted earnings per share	**17,965,091**	17,962,464	**17,971,979**	17,950,735
Basic earnings (loss) per share ($)	**$ (0.25)**	$ (0.23)	**$ (0.53)**	$ 0.79
Diluted earnings (loss) per share ($)	**$ (0.25)**	$ (0.23)	**$ (0.53)**	$ 0.79

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
$Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016	December 31, 2016
Revenue	**$ -**	$ -	**$ -**	$ 26	$ 111
Direct drilling costs	**$ 1,101**	$ 138	**$ 1,840**	$ 863	$ 2,241
Selling and administrative costs	**$ 144**	$ 16	**$ 246**	$ 111	$ 289
Period end accounts payable	**$ 1,450**	$ 417	**$ 1,450**	$ 417	$ 1,180

17. Change in Non-cash Working Capital

	Three Months Ended		Six Months Ended	
$Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Change in non-cash working capital:				
Accounts receivable	**$ 3,937**	$ 4,141	**$ 6,231**	$ 2,041
Prepaid expenses and other	**51**	172	**(631)**	(416)
Accounts payable and accrued liabilities	**(426)**	(1,796)	**1,155**	(7,359)
Total change in non-cash working capital	**$ 3,562**	$ 2,517	**$ 6,755**	$ (5,734)
Pertaining to:				
Operations	**$ 3,058**	$ 2,664	**$ 8,736**	$ (4,234)
Investing	**504**	(147)	**(1,981)**	(1,500)
Total change in non-cash working capital	**$ 3,562**	$ 2,517	**$ 6,755**	$ (5,734)

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 2017 and 2016 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, 2017, the Company had one joint venture rig with a multi-year contract which is due to expire 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, 2017, the Company had capital expenditure commitments of $2,728,000 (June 30, 2016 - $872,000 and December 31, 2016 – $827,000).

20. Accounting Changes Not Yet Adopted

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

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

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

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

There are no other standards 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

Directors

Loraine M. Charlton
Corporate Director
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

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

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

Henry G. Wilmot
Corporate Director
Calgary, Alberta

Charles W. Wilson
Corporate Director
Boulder, Colorado

Officers

Raymond T. Coleman
Senior Vice President

Colin A. Dease
Corporate Secretary

Fred O. Hensel
Vice President, Marketing

Craig W. Kushner
Director of Human Resources

Darcy Reynolds
Vice President, Finance and
Chief Financial Officer

Karl A. Ruud
President and Chief Executive Officer

Head Office

AKITA Drilling Ltd.,
1000, 333 - 7th Avenue SW
Calgary, Alberta T2P 2Z1
403.292.7979

Banker

Alberta Treasury Branches
Calgary, Alberta

Counsel

Bennett Jones LLP
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

AST Trust Company (Canada)
Calgary, Alberta and
Toronto, Ontario
1.800.387.0825

Share Symbol / TSX

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

Website

www.akita-drilling.com