LETTER TO THE SHAREOWNERS

2018 Q1 REPORT

AKITA Drilling Ltd.'s net loss for the three months ended March 31, 2018 was $1,912,000 (net loss of $0.11 per share basic and diluted) on revenue of $27,089,000, compared to a net loss of $4,975,000 (net loss of $0.28 per share basic and diluted) on revenue of $19,193,000 for the corresponding period in 2017. Funds flow from operations for the quarter ended March 31, 2018 was $4,519,000 compared to $1,824,000 in the corresponding quarter of 2017.

AKITA had improved results in the first quarter of 2018 with drilling activity across the Western Canadian Sedimentary Basin continuing to increase when compared to the same period in 2017. The increased activity was due to higher crude oil prices, with West Texas Intermediate remaining above $50 USD since October of last year. The Company's heavy oil drilling rigs were very active in the quarter generating over half of the Company's revenue for the first quarter of 2018. Although day rates have begun to increase, they have been slow to recover from the downturn. There is still insufficient demand in the Canadian market to create significant upward pricing pressure. During the quarter, AKITA moved a second rig to the United States, which began drilling in March. The Company has been successful in relocating and contracting idle rigs from Canada to the US Permian Basin at minimal capital cost.

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 change in the drilling industry in Canada in the near term and is therefore directing its growth efforts on the US market, where AKITA's focus on customer satisfaction and operational excellence is being very well received. Management believes AKITA is well positioned to capitalize on 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

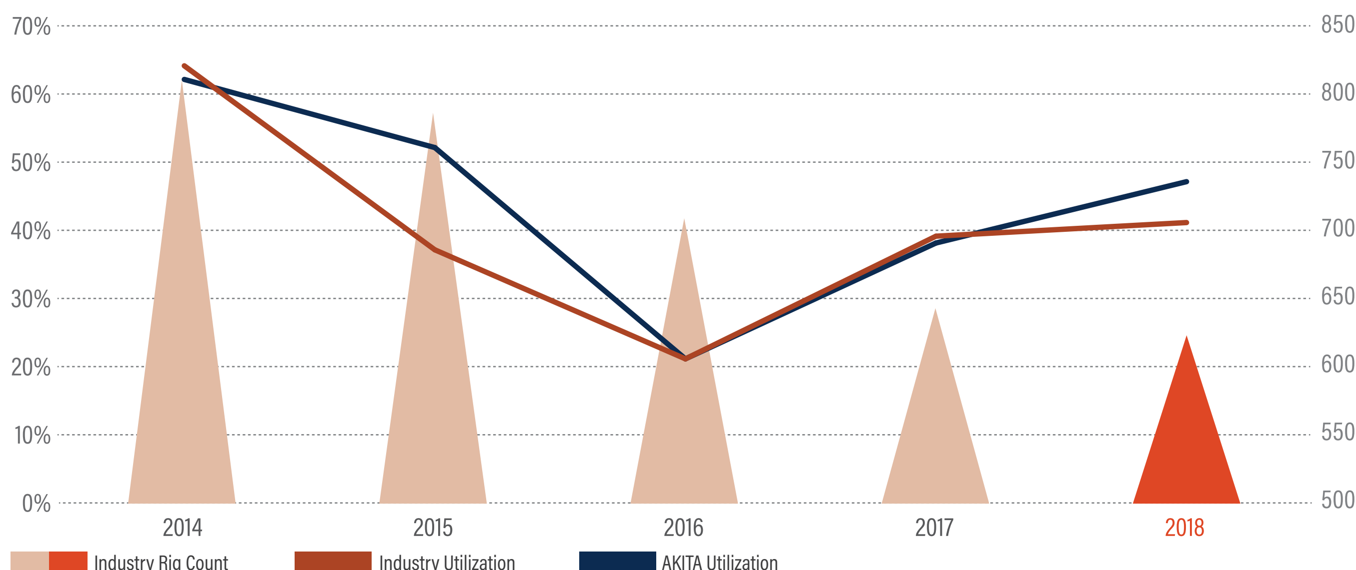
MANAGEMENT'S DISCUSSION & ANALYSIS

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 three months ended March 31, 2018 and the audited consolidated financial statements and MD&A for the year ended December 31, 2017. References made to 2018 in this MD&A relate to the period from January 1 to March 31 unless otherwise stated. The information in this MD&A was approved by AKITA's Audit Committee on behalf of its Board of Directors on April 27, 2018 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 both crude oil and natural gas. Average West Texas Intermediate (WTI) crude oil prices increased 22% when comparing the first quarter of 2018 to the first quarter of 2017, while Alberta Energy Company (AECO) natural gas spot prices decreased 22% over the same time period. This shift in commodity prices has increased the demand for the Company's rigs drilling for oil while at the same time reducing demand for the Company's rigs drilling for dry gas. As AKITA is typically more active in heavy oil drilling, the increase in demand due to crude oil prices increased the Company's utilization for the first quarter of 2018 compared to the first quarter of 2017 as highlighted in the following chart.



Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

This increase in utilization is a positive sign for AKITA, however pricing pressure is still an issue as discussed further in this MD&A.

Readers of this MD&A should be aware that historically, the first quarter of the calendar year is the most active in the drilling industry, as operators take advantage of frozen ground, which makes the movement of heavy equipment easier. Lower activity levels that result from spring break-up and associated travel bans on public roads characterize the second quarter.

Fleet and Rig Utilization

AKITA had 28 drilling rigs at March 31, 2018, including five that operated under joint ventures (26.75 net to AKITA), the same as at March 31, 2017. During the first quarter of 2018 a second rig was moved to the United States (US). The Company currently has 26 rigs in Canada and two in the US.

Three months ended March 31	2018	2017	Change	% Change
Operating days	1,174	961	213	22%
Utilization rate	47%	38%	9	24%

Generally, AKITA meets or exceeds industry average rig utilization rates as a result of positive customer relations, meaningful joint ventures with Aboriginal and First Nations partners, employee expertise, safety performance, drilling performance and the majority of the Company's rig fleet are high-demand pad drilling rigs.

The following table compares first quarter utilization for AKITA to the industry for 2018 and 2017:

Utilization rates Three months ended March 31	**2018**	2017
AKITA	**47%**	38%
Industry [1]	**41%**	39%

[1] Source: CAODC

The improvement in utilization in the first quarter of 2018, compared to the first quarter of 2017, was driven by AKITA's fleet of pad triple drilling rigs obtaining more operating days in 2018, while other rig categories obtained similar results as in the prior year.

Revenue and Operating & Maintenance Expenses

$Millions Three months ended March 31	**2018**	2017	Change	% Change
Contract drilling revenue	**27.1**	19.2	7.9	41%
Operating & maintenance expenses	**20.4**	17.7	2.7	15%

$Dollars Three months ended March 31	**2018**	2017	Change	% Change
AKITA and joint ventures' revenue per operating day [1]	**29,363**	26,367	2,996	11%
AKITA and joint ventures' operating & maintenance expenses per operating day [1]	**21,848**	22,625	(778)	(3%)
AKITA and joint ventures' operating margin per operating day	**7,515**	3,742	3,773	101%

[1] AKITA and joint ventures' revenue per operating day and AKITA and joint ventures' operating & maintenance expenses per operating day are non-GAAP financial measures. See "Basis of Analysis in this MD&A, Non-GAAP and Additional GAAP Items".

During the first quarter of 2018, revenue increased to $27,089,000 from $19,193,000 in the first quarter of 2017, due to increases in both utilization and revenue per day. Revenue per operating day increased to $29,363 (for AKITA including joint ventures) year-to-date in 2018 from $26,367 for the same period in 2017. The increase in revenue per operating day was a result of a slight strengthening of rates in the Canadian industry as well as the mix of rigs AKITA operated in the quarter. Pad triple drilling rigs, which generally demand higher day rates than other conventional drilling rigs, achieved more operating days in the first quarter of 2018 compared to the same period of 2017.

Operating and maintenance expenses are directly related to operating days and amounted to $20,389,000 ($21,848 per operating day for AKITA including joint ventures) during the first quarter of 2018, compared to $17,735,000 ($22,625 per operating day for AKITA including joint ventures) during the same period of the prior year. The increase in operating and maintenance expenses is due to more operating days in the first quarter of 2018 compared to the first quarter of 2017. High start-up costs for rigs incurred in the first quarter of 2017 were the main factor behind the per day decrease in operating and maintenance expense in the first three months of 2018.

Depreciation and Amortization Expense

$Millions Three months ended March 31	2018	2017	Change	% Change
Depreciation and amortization expense	5.9	6.7	(0.8)	(12%)

Depreciation and amortization expense decreased to $5,927,000 during the first quarter of 2018 from $6,736,000 during the corresponding period in 2017, primarily due to the asset write-down and asset impairment loss recorded in the fourth quarter of 2017, which reduced the Company's depreciable property by $29,123,000.

On January 1, 2018, AKITA changed its depreciation method to a straight-line calculation from a unit-of-production basis on rig assets. The rationale for this change was to have rig depreciation more closely match the new lifecycle of rigs. Historically, rigs would last until they wore out. However, technology is a large part of modern drilling rigs and today drilling rigs' useful lives are reduced as new technologies are invented for modern drilling programs. As a result, the passage of time plays a more significant part than operating days in determining a drilling rig's life. The straight-line depreciation method matches the new lifecycle more accurately than the unit-of-production depreciation method. The estimated effect of the change in depreciation method on the Company's interim financial statements for the first quarter of 2018 is not material. In the first quarter of 2018, drilling rig depreciation accounted for 97% of total depreciation expense (Q1 2017 - 97%).

While AKITA conducts some 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 by the joint ventures themselves. As the joint ventures do not hold any property, plant, or equipment assets directly, the Company's depreciation expense includes depreciation on assets involved in both wholly-owned and joint venture activities.

Selling and Administrative Expenses

$Millions Three months ended March 31	2018	2017	Change	% Change
Selling and administrative expenses	4.4	4.0	0.4	10%

Selling and administrative expenses increased to $4,419,000 in the first quarter of 2018 (16% of revenue) from $3,978,000 (16% of revenue) in the first quarter of 2017, due to a combination of increased administrative expenses and costs relating to US operations. Salaries and benefits accounted for 50% of these expenses (Q1 2017 - 43%).

Equity Income from Joint Ventures

$Millions Three months ended March 31	2018	2017	Change	% Change
Proportionate share of revenue from joint ventures	7.4	6.1	1.3	21%
Proportionate share of operating & maintenance expenses from joint ventures	5.3	4.0	1.3	33%
Proportionate share of selling and administrative expenses from joint ventures	0.1	-	0.1	100%
Equity income from joint ventures	2.0	2.1	(0.1)	(5%)

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 increase in both revenue and expenses for the Company's proportionate share of joint ventures is related to increased activity for the Company's joint venture rigs in the first quarter of 2018 compared to the first quarter of 2017. Although there was more activity in the joint ventures in the first quarter of 2018 compared to the same period in the prior year, the average revenue per day decreased due to more rigs working at market rates in 2018 versus long-term contract rates in 2017.

Other Income (Loss)

$Millions Three months ended March 31	2018	2017	Change	% Change
Total other income (loss)	0.1	0.2	(0.1)	(50%)

Total other income (loss) is the aggregate of interest income, interest expense, gain (loss) on sale of assets, and net other gains (losses) all of which are discussed below in detail.

Interest income decreased to $17,000 in the first quarter of 2018 from $120,000 in the same period of 2017, due to the collection of the interest-bearing long-term receivable held related to contract cancellation revenue recorded in 2016.

In the first quarter of 2018, the Company incurred interest expense of $41,000 on the Company's line of credit (Q1 2017 – nil) and $42,000 for the future cost of the Company's defined benefit pension plan (Q1 2017 - $42,000).

During the first quarter of 2018, the Company did not sell any ancillary assets compared to the same period in 2017 when assets were sold for proceeds of $80,000 that resulted in a gain of $76,000.

During the first quarter of 2018, net other gains of $124,000 were realized on the sale of previously written-off assets (Q1 2017 - $2,000).

Income Tax Expense (Recovery)

$Millions Three months ended March 31	2018	2017	Change	% Change
Current tax recovery	-	(2.0)	2.0	100%
Deferred tax expense	0.3	-	0.3	-
Total income tax expense (recovery)	0.3	(2.0)	2.3	115%

The Company recorded a deferred tax expense of $339,000 in the first quarter of 2018, compared to a deferred tax recovery of $29,000 and current tax recovery of $2,046,000 in the corresponding period in 2017. The shift from current tax to deferred tax between the quarters is due to the Company utilizing all potential loss carrybacks in 2017.

Net Loss, Funds Flow and Net Cash From Operating Activities

$Millions Three months ended March 31	2018	2017	Change	% Change
Net loss	(1.9)	(5.0)	3.1	62%
Funds flow from operations [1]	4.5	1.8	2.7	150%

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

The Company incurred a net loss of $1,912,000 ($0.11 loss per share basic and diluted) for the first quarter of 2018, compared to a net loss of $4,975,000 ($0.28 loss per share basic and diluted) in the first quarter of 2017. Funds flow from operations increased to $4,519,000 in the first quarter of 2018, from $1,824,000 during the corresponding quarter in 2017. The reduction in net loss and increase in funds flow is attributable to increased activity and higher average day rates in the first quarter of 2018 compared to the same period in 2017.

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

$Millions Three months ended March 31	2018	2017	Change	% Change
Funds flow from operations [(1)]	4.5	1.8	2.7	150%
Change in non-cash working capital	0.4	5.7	(5.3)	(93%)
Equity income from joint ventures	(2.0)	(2.1)	0.1	5%
Post-employee benefits and interest paid	(0.1)	-	(0.1)	-
Current income tax recovery	-	(2.0)	2.0	100%
Net cash from operating activities	2.8	3.4	(0.6)	(17%)

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

Liquidity and Capital Resources

Cash used for capital expenditures totalled $1,685,000 in the first quarter of 2018 (Q1 2017 - $4,587,000). Year-to-date capital spending relates to routine capital items (69%) and costs incurred for the expansion into the US. The prior year's first quarter capital expenditures largely related to routine items, while 33% related to the construction of an AC double pad drilling rig which commenced operations in the fourth quarter of 2017.

At March 31, 2018, AKITA's Statements of Financial Position included working capital (current assets minus current liabilities) of $16,111,000 compared to working capital of $29,980,000 at March 31, 2017, and working capital of $15,528,000 at December 31, 2017. The seasonal nature of AKITA's business typically results in higher non-cash working capital balances at the end of the first quarter than at year-end due to the high seasonal activity levels encountered in the first quarter. Working capital at March 31, 2018 decreased compared to March 31, 2017, due to lower working capital balances at December 31, 2017 compared to December 31, 2016 ($34,907,000).

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 2019. The facility has been provided in order to finance general corporate needs, capital expenditures and acquisitions. Management used the facility in the first quarter of 2018 to fund working capital requirements. The first quarter of the year is typically the quarter with the highest cash requirements of the year due to increased drilling activity. 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 had $6,500,000 drawn on the facility at March 31, 2018 (no amounts were drawn in 2017).

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.

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 March 31, 2018, AKITA provided $1,158,000 in deposits with its bank for those purposes (March 31, 2017 - $2,613,000 and December 31, 2017 - $1,525,000). 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 Statements of Financial Position.

Summary of Quarterly Results

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

$Thousands, except per share Three months ended	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2018				
Revenue	**27,089**			
Net loss	**(1,912)**			
Loss per share (basic and diluted) ($)	**(0.11)**			
Funds flow from operations [(1)]	**4,519**			
Net cash from operating activities	**2,819**			
2017				
Revenue	19,193	17,986	14,908	19,111
Net loss	(4,975)	(4,491)	(3,811)	(25,900)
Loss per share (basic and diluted) ($)	(0.28)	(0.25)	(0.21)	(1.44)
Funds flow from operations [(1)]	1,824	3,254	1,472	57
Net cash from (used in) operating activities	3,399	3,407	969	(2,701)
2016				
Revenue	41,991	3,646	6,616	8,808
Net income (loss)	18,173	(4,062)	(4,668)	(4,114)
Earnings (loss) per share (basic and diluted) ($)	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)

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

Key trends over the past nine 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], reached a low point in the current cycle in the middle of 2016 and have been on an upward trend since the first quarter of 2017;
- Strengthening activity has had a positive impact on day rates, however, demand in the Canadian drilling market has not recovered sufficiently to allow for significant day rate increases; 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 contract cancellation revenue.

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

Future Outlook

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

Prices for crude oil have had a gradual upward trend throughout 2017 and into 2018, which has had a positive effect on both the North American drilling industry as a whole, as well as for AKITA, as discussed earlier. In Canada, the Company is anticipating increased demand in 2018 when compared to 2017, fuelled by increasing oil prices, however, this increase is tempered by the uncertainty in the Canadian market with respect to take-away capacity as well as political uncertainty. In the US, demand for drilling rigs is growing and continues to be a very attractive market for AKITA. During the first quarter of 2018, a second rig was moved to the Permian Basin in Texas and began working near the end of the quarter. The Company is evaluating opportunities to move additional rigs to leverage the success of its initial expansion into the US.

Despite improvements in activity year-to-date in 2018 compared to 2017, uncertainty in the Canadian market will have a significant impact on the Canadian drilling industry in 2018 and may slow down the recovery that began in 2017. In light of this uncertainty, the Company is focused on cost control and cash management for the balance of 2018. Management believes that the high-efficiency modern drilling 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 continues to look for growth opportunities that will complement AKITA's existing operations.

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.

Impairment of Assets

No asset impairment indicators were noted and no asset impairment expense was recognized for the three months ended March 31, 2018 (Q1 2017 - nil).

Useful Lives of Drilling Rigs

Management makes significant estimates relating to the useful lives of drilling rigs. Depreciation methods and rates have been selected so as to amortize the net cost of each asset over its expected useful life to its estimated residual values. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

Defined Benefit Pension Liability

A significant estimate used in the preparation of AKITA's interim financial statements relates to the measurement of the non-current defined benefit pension liability for selected employees and retired employees that was recorded as $4,927,000 at March 31, 2018 (March 31, 2017 - $4,392,000). AKITA's pension liability estimates do not have any effect on the changes to the financial condition of the Company, as the defined benefit pension change in estimate is a non-cash item while the plan payments are cash items. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2018, a key assumption is the 3.3% discount rate (2017 – 3.6%).

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.

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 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. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability are recognized. The only exceptions are for short-term and low-value leases. Some of the Company's lease commitments may be covered by the exception for short-term and low-value leases and some lease commitments may relate to arrangements that will not qualify as leases under IFRS 16.

IFRS 16 is mandatory for the first interim periods within annual reporting periods beginning on or after January 1, 2019. The Company does not intend to adopt the standard before its effective date.

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

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

AKITA and its joint ventures' revenue per operating day and AKITA and its joint ventures' operating and maintenance expenses per operating day are not recognized GAAP measures under International Financial Reporting Standards ("IFRS"). Management and certain investors may find "per operating day" measures for AKITA and joint ventures' revenue indicate pricing strength while AKITA and joint ventures' 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 drilling rigs that are utilized can also influence these 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 Responsibility for Financial Information

As at March 31, 2018, 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 March 31, 2018.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended March 31, 2018, 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 Statements of Financial Position

Unaudited $Thousands		March 31, 2018	March 31, 2017	December 31, 2017
ASSETS				
Current Assets				
Cash and cash equivalents	Note 10	$ 4,948	$ 10,499	$ 560
Accounts receivable	Note 11	25,729	25,926	27,024
Income taxes recoverable		3,076	4,374	3,076
Prepaid expenses and other		1,108	756	89
		34,861	41,555	30,749
Non-current Assets				
Restricted cash	Note 9	1,158	2,613	1,525
Other long-term assets		520	907	528
Investments in joint ventures	Note 8	5,006	4,253	4,096
Property, plant and equipment	Note 7	166,366	203,776	170,599
TOTAL ASSETS		$ 207,911	$ 253,104	$ 207,497
LIABILITIES				
Current Liabilities				
Operating loan facility	Note 11	$ 6,500	$ —	$ —
Accounts payable and accrued liabilities		10,725	10,050	13,696
Dividends payable	Note 13	1,525	1,525	1,525
		18,750	11,575	15,221
Non-current Liabilities				
Financial instruments	Note 11	4	31	9
Deferred income taxes	Note 5	12,931	23,673	12,592
Deferred share units	Note 15	395	226	388
Pension liability		4,927	4,392	4,832
Total Liabilities		37,007	39,897	33,042
SHAREHOLDER'S EQUITY				
Class A and Class B shares	Note 14	23,871	23,871	23,871
Contributed surplus		4,545	4,346	4,500
Accumulated other comprehensive loss		(475)	(366)	(495)
Retained earnings		142,963	185,356	146,579
Total Equity		170,904	213,207	174,455
TOTAL LIABILITIES AND EQUITY		$ 207,911	$ 253,104	$ 207,497

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

Interim Statements of Net Loss and Comprehensive Loss

Unaudited $Thousands, except per share		Three Months Ended March 31	
		2018	2017
REVENUE	Note 4	$ 27,089	$ 19,193
COSTS AND EXPENSES			
Operating and maintenance		20,389	17,735
Depreciation and amortization	Note 7	5,927	6,736
Selling and administrative		4,419	3,978
Total Costs and Expenses		30,735	28,449
Revenue Less Costs and Expenses		(3,646)	(9,256)
EQUITY INCOME FROM JOINT VENTURES	Note 8	2,015	2,062
OTHER INCOME (LOSS)			
Interest income		17	120
Interest expense		(83)	(42)
Gain on sale of assets		—	76
Net other gains		124	19
Total Other Income (Loss)		58	173
Loss Before Income Taxes		(1,573)	(7,021)
Income tax expense (recovery)	Note 5	339	(2,046)
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(1,912)	(4,975)
Other comprehensive income		20	—
COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ (1,892)	$ (4,975)
NET LOSS PER CLASS A AND CLASS B SHARE	Note 3		
Basic		$ (0.11)	$ (0.28)
Diluted		$ (0.11)	$ (0.28)

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

Interim Statements of Changes in Shareholders' Equity

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
		Attributable to the Shareholders of the Company						
BALANCE AT DECEMBER 31, 2016		$ 22,505	$ 1,366	$ 23,871	$ 4,285	$ (366)	$ 191,856	$ 219,646
Net loss for the period		—	—	—	—	—	(4,975)	(4,975)
Stock options charged to expense		—	—	—	61	—	—	61
Dividends		—	—	—	—	—	(1,525)	(1,525)
BALANCE AT MARCH 31, 2017		$ 22,505	$ 1,366	$ 23,871	$ 4,346	$ (366)	$ 185,356	$ 213,207
Net loss for the period		—	—	—	—	—	(34,202)	(34,202)
Remeasurement of pension liability		—	—	—	—	(129)	—	(129)
Stock options charged to expense		—	—	—	154	—	—	154
Dividends		—	—	—	—	—	(4,575)	(4,575)
BALANCE AT DECEMBER 31, 2017		$ 22,505	$ 1,366	$ 23,871	$ 4,500	$ (495)	$ 146,579	$ 174,455
January 1, 2018 increase in estimated credit loss resulting from the implementation of IFRS 9	Note 11	—	—	—	—	—	(179)	(179)
Net loss for the period		—	—	—	—	—	(1,912)	(1,912)
Foreign currency translation adjustment		—	—	—	—	20	—	20
Stock options charged to expense		—	—	—	45	—	—	45
Dividends		—	—	—	—	—	(1,525)	(1,525)
BALANCE AT MARCH 31, 2018		$ 22,505	$ 1,366	$ 23,871	$ 4,545	$ (475)	$ 142,963	$ 170,904

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

Interim Statements of Cash Flows

Unaudited $Thousands		Three Months Ended March 31	
		2018	2017
OPERATING ACTIVITIES			
Net loss		**$ (1,912)**	$ (4,975)
Non-cash items included in net loss:			
Depreciation and amortization	Note 7	**5,927**	6,736
Deferred income taxes expense (recovery)	Note 5	**339**	(29)
Defined benefit pension plan expense		**118**	113
Stock options and deferred share units expense	Note 15	**52**	65
Gain on sale of assets		**-**	(76)
Unrealized gain on financial guarantee contracts		**(5)**	(10)
Funds flow from operations		**4,519**	1,824
Change in non-cash working capital	Note 12	**379**	5,679
Equity income from joint ventures	Note 8	**(2,015)**	(2,062)
Post-employment benefits		**(23)**	(24)
Interest paid		**(41)**	(1)
Income tax recovery - current	Note 5	**-**	(2,017)
Net Cash From Operating Activities		**2,819**	3,399
INVESTING ACTIVITIES			
Capital expenditures	Note 7	**(1,685)**	(4,587)
Change in non-cash working capital related to capital	Note 12	**(3,213)**	(2,485)
Net distributions from investments in joint ventures	Note 8	**1,105**	1,061
Change in cash restricted for loan guarantees		**367**	356
Proceeds on sales of assets		**-**	80
Net Cash Used In Investing Activities		**(3,426)**	(5,575)
FINANCING ACTIVITIES			
Change in operating loan facility	Note 11	**6,500**	-
Dividends paid	Note 13	**(1,525)**	(1,525)
Loan commitment fee paid		**-**	(50)
Net Cash From (Used In) Financing Activities		**4,975**	(1,575)
Foreign Currency Translation		**20**	-
Increase (Decrease) In Cash and Cash Equivalents		**4,388**	(3,751)
Cash and cash equivalents, beginning of period		**560**	14,250
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 4,948**	$ 10,499

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

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and March 31, 2017 (unaudited)

BUSINESS AND ENVIRONMENT

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company" or "AKITA") provide contract drilling services, primarily to the oil and gas industry. The Company owns and operates 28 drilling rigs (26.75 net).

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 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 three months ended March 31, 2018 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, 2017, which have been prepared in accordance with IFRS.

These interim financial statements are presented in Canadian dollars which is the Company's functional currency.

The accounting policies applied in these interim financial statements are based on IFRS issued and effective as of April 27, 2018, the date that the Company's Audit Committee of the Board of Directors approved the interim financial statements.

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Company's 2017 Annual Report.

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the following standards:

- IFRS 9 — Financial Instruments, and
- IFRS 15 — Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4 (Revenue) and Note 11 (Financial Instruments). The other new IFRS standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

The preparation of these interim financial statements requires management to make estimates and judgments. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Actual results could differ materially from these estimates. Estimates and judgments which are material to the interim financial statements are found in the following notes:

- Note 5 - Income Taxes
- Note 7 - Property, Plant and Equipment
- Note 11 – Financial Instruments

RESULTS FOR THE QUARTER

3. Net Loss per Share

	Three Months Ended March 31	
	2018	2017
Net loss ($Thousands)	**$ (1,912)**	$ (4,975)
Weighted average outstanding shares	**17,945,661**	17,945,661
Incremental shares for diluted earnings per share calculation [(1)]	**—**	—
Weighted average outstanding shares for earnings per share - diluted	**17,945,661**	17,945,661
Loss per share - basic	**$ (0.11)**	$ (0.28)
Loss per share - diluted	**$ (0.11)**	$ (0.28)

[(1)] For the first quarter of 2018 and 2017, the outstanding shares that would have been issued under the Stock Option Plan were excluded in calculating the weighted average number of diluted shares outstanding as the Company incurred a net loss during the quarter and therefore the shares were considered anti-dilutive.

4. Revenue

IFRS 15 Revenue from Contracts with Customers – Impact of Adoption

The Company has applied IFRS 15 Revenue from Contracts with Customers effective January 1, 2018 on a modified retrospective basis. The adoption of IFRS 15 resulted in changes in accounting policies which are described below. There are no adjustments to amounts recognized in the interim financial statements as a result of the adoption of this standard.

IFRS 15 Revenue from Contracts with Customers – Accounting Policies

Revenue is recognized when the Company satisfies a performance obligation by transferring promised goods or services to a customer and the amount recorded is measured at the fair value of the consideration received. A typical contract with a customer includes performance obligations to provide drilling services and rig equipment, which are satisfied over time. Once determined, the transaction price will be allocated to each performance obligation based on stand-alone selling prices. Where stand-alone selling prices are not directly observable, the Company will make an estimate based on expected cost-plus margin.

Where possible, the Company will apply the practical expedient not to disclose the transaction price for unsatisfied performance if the performance obligation is part of a contract that has an original expected duration of one year or less. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

The receipt of unearned contract revenue is recorded as deferred revenue until the contracted passage of time has occurred. Contract cancellation revenue is recognized when both parties to the contract have agreed upon an amount, collection is probable, and the Company does not have any further services to render in order to earn the estimated revenue.

The Company's revenue streams under IFRS 15 are comprised of the following:

	Three Months Ended March 31	
$Thousands	**2018**	2017
Contract drilling services	**$ 16,646**	$ 11,809
Rig lease revenue	**10,443**	7,384
Total revenue	**$ 27,089**	$ 19,193

Significant Estimates and Judgments – Relative Stand-Alone Selling Price

The majority of the Company's contracts contain both a lease and a service element. IFRS 15 requires that revenue from contracts with customers be presented separately from lease revenue. In this case, the transaction price will be allocated to each of the lease and service elements based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin.

5. Income Taxes

Income taxes are comprised of the following:

	Three Months Ended March 31	
$Thousands	**2018**	2017
Current tax recovery	$ —	$ (2,017)
Deferred tax expense (recovery)	339	(29)
Total income tax expense (recovery)	**$ 339**	$ (2,046)

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial tax rate of 27% (2017 – 26.83%) to the reported tax expense. The rate increase is due to increases in provincial tax rates in British Columbia and Saskatchewan. 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 March 31	
$Thousands	**2018**	2017
Loss before income taxes	$ (1,573)	$ (7,021)
Expected income tax at the statutory rate	(425)	(1,884)
Add (deduct):		
Change in future income tax rates	94	(147)
Change in unrecognized deferred tax assets	648	—
Permanent differences	30	30
Jurisdictional rate difference	33	—
Other	(41)	(45)
Total income tax expense (recovery)	**$ 339**	$ (2,046)

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. No portion of deferred income taxes is expected to be recovered within 12 months. The deferred tax balance consists of the following:

$Thousands	Property, Plant and Equipment	Defined Benefit Pension Plan Benefits	Other	Total
Balance as at December 31, 2016	$ 24,386	$ (1,183)	$ 499	$ 23,702
Charged/(credited) to the statement of net loss	21	(16)	(34)	(29)
Balance as at March 31, 2017	24,407	(1,199)	465	23,673
Credited to the statement of net loss	(10,869)	(73)	(92)	(11,034)
Credited to other comprehensive loss	—	(47)	—	(47)
Balance as at December 31, 2017	13,538	(1,319)	373	12,592
Charged/(credited) to the statement of net loss	**415**	**(35)**	**(41)**	**339**
Balance as at March 31, 2018	**$ 13,953**	**$ (1,354)**	**$ 332**	**$ 12,931**

Significant Estimates and Judgments - Deferred Income Taxes

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

6. 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 is provided on the basis of geographic segments as the Company manages its business through two geographic regions – Canada and the United States ("US"). During the first quarter of 2018, the Company commenced operations in the US.

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Revenue	**$ 25,939**	**$ 1,150**	**$ 27,089**	$ 19,193	$ -	$ 19,193
Revenue less costs and expenses	**$ (2,653)**	**$ (933)**	**$ (3,646)**	$ (9,256)	$ -	$ (9,256)

	March 31, 2018			March 31, 2017		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Property, plant and equipment	**$ 134,750**	**$ 31,616**	**$ 166,366**	$ 203,776	$ -	$ 203,776

LONG-TERM ASSETS

7. Property, Plant and Equipment

Significant Estimates and Judgments

Depreciation is recognized on property, plant and equipment excluding land. Depreciation methods and rates have been selected so as to amortize the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

Effective January 1, 2018, the Company changed its method for depreciating drilling rigs from unit-of-production to straight-line and revised estimates related to drilling rig salvage values. The change in depreciation methodology reflects the technological developments within the drilling industry and management believes that straight-line depreciation better reflects the future economic benefits related to these assets. The change in depreciation methodology was applied prospectively. The estimated effect of the change in depreciation method on the Company's interim financial statements for the first quarter of 2018 is not material.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

A summary of depreciation methodologies for the Company's major property and equipment classes as at March 31, 2018 is as follows:

Equipment Class	Depreciation Method	Depreciation Rates
Drilling rigs	Straight-line	10 to 20 years
Major inspection and overhaul expenditures	Straight-line	3 years
Drill pipe and other ancillary drilling equipment	Straight-line	2 to 8 years
Furniture, fixtures and equipment	Straight-line	10 years
Buildings	Declining balance	4% to 10% per annum

Impairment of Assets

No asset impairment indicators were noted and no asset impairment expense was recognized for the three months ended March 31, 2018 (Q1 2017 - nil).

Continuity of Property, Plant and Equipment

Cost $Thousands		Land and Buildings		Drilling Rigs		Other		Total
Balance as at December 31, 2016	$	4,302	$	405,935	$	7,964	$	418,201
Additions		—		4,395		192		4,587
Disposals		—		(5,263)		(69)		(5,332)
Balance as at March 31, 2017		4,302		405,067		8,087		417,456
Additions		—		15,912		70		15,982
Disposals		—		(15,554)		(60)		(15,614)
Transfers		—		(4,615)		—		(4,615)
Asset writedown and impairment loss		—		(37,908)		—		(37,908)
Balance as at December 31, 2017		4,302		362,902		8,097		375,301
Additions		**—**		**1,253**		**432**		**1,685**
Disposals		**—**		**—**		**—**		**—**
Transfers		**—**		**(19,900)**		**—**		**(19,900)**
Balance as at March 31, 2018	**$**	**4,302**	**$**	**344,255**	**$**	**8,529**	**$**	**357,086**

Accumulated Depreciation $Thousands		Land and Buildings		Drilling Rigs		Other		Total
Balance as at December 31, 2016	$	1,351	$	204,186	$	6,772	$	212,309
Disposals		—		(5,263)		(65)		(5,328)
Deprecation expense		19		6,488		192		6,699
Balance as at March 31, 2017		1,370		205,411		6,899		213,680
Disposals		—		(15,536)		(54)		(15,590)
Depreciation expense		54		19,483		475		20,012
Transfers		—		(4,615)		—		(4,615)
Asset writedown and impairment loss		—		(8,785)		—		(8,785)
Balance as at December 31, 2017		1,424		195,958		7,320		204,702
Disposals		**—**		**—**		**—**		**—**
Depreciation expense		**17**		**5,765**		**136**		**5,918**
Transfers		**—**		**(19,900)**		**—**		**(19,900)**
Balance as at March 31, 2018	**$**	**1,441**	**$**	**181,823**	**$**	**7,456**	**$**	**190,720**

Net Book Value $Thousands		Land and Buildings		Drilling Rigs		Other		Total
As at December 31, 2016	$	2,951	$	201,749	$	1,192	$	205,892
As at March 31, 2017	$	2,932	$	199,656	$	1,188	$	203,776
As at December 31, 2017	$	2,878	$	166,944	$	777	$	170,599
As at March 31, 2018	**$**	**2,861**	**$**	**162,432**	**$**	**1,073**	**$**	**166,366**

The Company had $1,037,000 in Property, Plant and Equipment that was not being depreciated as these assets were under construction as at March 31, 2018 (March 31, 2017 - $6,477,000 and December 31, 2017 – $16,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $9,000 for the three month period ended March 31, 2018 (March 31, 2017 - $37,000).

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 seven different Aboriginal and First Nations groups with equity investment in five 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 consolidation.

The following table lists the Company's active joint ventures.

Active Joint Ventures	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 Equtak Joint Venture 61	Canada	50%

Continuity of Investments in Joint Ventures

$Thousands		Investments in Joint Ventures
Balance as at December 31, 2016	$	3,252
Net income for the three month period ended March 31, 2017		2,062
Distributions for the three month period ended March 31, 2017		(1,061)
Balance as at March 31, 2017		4,253
Net income for the nine month period ended December 31, 2017		4,877
Distributions for the nine month period ended December 31, 2017		(5,034)
Balance as at December 31, 2017		4,096
Net income for the three month period ended March 31, 2018		**2,015**
Distributions for the three month period ended March 31, 2018		**(1,105)**
Balance as at March 31, 2018	**$**	**5,006**

Summarized Joint Venture Financial Information

This summarized financial information is 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.

	March 31, 2018			March 31, 2017		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Cash	$ 1,497	$ 367	$ 1,864	$ 1,771	$ 361	$ 2,132
Other current assets	7,080	1,510	8,590	4,558	1,177	5,735
Non-current assets	55	—	55	55	—	55
Total assets	8,632	1,877	10,509	6,384	1,538	7,922
Total liabilities	3,626	765	4,391	2,131	510	2,641
Net assets	$ 5,006	$ 1,112	$ 6,118	$ 4,253	$ 1,028	$ 5,281

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Revenue	$ 7,383	$ 1,656	$ 9,039	$ 6,146	$ 1,439	$ 7,585
Net income and comprehensive income	$ 2,015	$ 452	$ 2,467	$ 2,062	$ 439	$ 2,501

Related Party Transactions

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

	Three Months Ended March 31		Year Ended December 31
$Thousands	2018	2017	2017
Revenue	$ —	$ —	$ 6
Operating costs	999	739	4,736
Selling and administrative costs	144	103	531
Period end accounts payable	2,370	1,239	1,044

9. Restricted Cash

Restricted cash is comprised of the following:

$Thousands	March 31, 2018	March 31, 2017	December 31, 2017
Balance held in term deposits	$ 1,158	$ 2,613	$ 1,525

During 2014, the Company guaranteed bank loans made to joint venture partners totalling $5,648,000 for a period of four years. The Company has provided an assignment of monies on deposit totaling $1,158,000 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.

WORKING CAPITAL

10. Cash and Cash Equivalents

Cash and cash equivalents is comprised of the following:

$Thousands	March 31, 2018	March 31, 2017	December 31, 2017
Cash	$ 4,948	$ 7,477	$ 560
Short-term bank deposits	—	3,022	—
Cash and cash equivalents	$ 4,948	$ 10,499	$ 560

11. Financial Instruments

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments on January 1, 2018, resulted in changes in accounting policies. The new accounting policies are set out below.

Impairment – impact of adoption

The Company was required to revise its impairment methodology under IFRS 9 for accounts receivable. The impact of the change in impairment methodology on the Company's financial statements is immaterial.

For trade receivables, the Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit-risk characteristics and analyzed. The adjustments arising from the new impairment rules are not reflected in the statement of financial position as at December 31, 2017, but are recognized in the opening statement of financial position on January 1, 2018.

The loss allowance increased by $179,000 to $229,000 for accounts receivable as at January 1, 2018. This amount was not material to be recorded in the 2017 consolidated financial statements.

Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company and a failure to make contractual payments for a period of greater than 180 days past due.

IFRS 9 Financial Instruments – Accounting Policies Applied From January 1, 2018

A. Classification and measurement

Due to the short-term nature of the Company's financial instruments, fair values approximate carrying valves unless otherwise stated.

From January 1, 2018, the Company classifies its financial instruments in the following measurement categories depending on the entity's business model for managing financial assets and the contractual terms of the cash flows:

i. Financial assets at amortized cost:

   Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. As at March 31, 2018, the Company's financial assets included in this category include cash, restricted cash and accounts receivable.

ii. Financial liabilities at amortized cost:

   Financial liabilities that are measured at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables and accrued liabilities to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. As at March 31, 2018, the Company's financial liabilities included in this category include accounts payable and accrued liabilities and its operating loan facility.

iii. Fair value through other comprehensive income ("FVOCI"):

   Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses) and impairment expenses are presented as a separate line item on the statement of profit or loss. As at March 31, 2018, the Company held no financial instruments in this category.

iv. Fair value through profit or loss ("FVPL"):

   Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Financial assets at FVPL are financial assets held for trading. Derivatives are also categorized as held for trading and measured at FVPL unless they are designated as hedges. As at March 31, 2018, the Company's financial assets that are measured at FVPL consist of financial guarantee contracts.

B. Impairment of financial assets

From January 1, 2018, the Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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 2019. 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.

At March 31, 2018, the Company had $6,500,000 outstanding on its operating loan facility. The operating loan facility's cash flows for the three months ended March 31, 2018 are presented below.

$Thousands		Operating Loan Facility
Balance as at December 31, 2017	$	—
Short-term borrowings		**13,900**
Repayment of short-term borrowings		**(7,400)**
Balance as at March 31, 2018	**$**	**6,500**

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 $4,000 at March 31, 2018 (March 31, 2017 - $31,000 and December 31, 2017 - $9,000). 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 the following risks associated with its financial instruments.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's trade and other receivables. The credit risk is managed via the Company's credit-granting procedures which include an evaluation of the customer's financial condition and payment history. In certain circumstances the Company may require customers to make advance payment prior to the provision of services, issue a letter of credit or take other measures to reduce credit risk. Management has estimated provisions to recognize potential impairments, which have been included in the accounts.

The terms of the Company's contracts generally require payment within 30 days. The Company continuously monitors the recoverability of its accounts receivables balances and subject to agreed payment terms, generally considers the balance to be overdue when it ages over 90 days. In management's judgment there is no significant credit risk exposure in the balances outstanding at:

$Thousands	March 31, 2018	March 31, 2017	December 31, 2017
Within 30 days	$ 18,803	$ 12,826	$ 11,459
31 - 60 days	4,950	3,248	3,908
61 - 90 days	1,527	9	846
Over 90 days	708	—	220
Estimated credit losses	(259)	(53)	(50)
Total trade accounts receivable	25,729	16,030	16,383
Contract cancellation revenue	—	9,896	10,641
Accounts receivable	**$ 25,729**	$ 25,926	$ 27,024

Significant Estimates and Judgments – Estimated Credit Losses

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Liquidity risk

Liquidity risk is the risk that the Company will not being able to meet its financial obligations as they come due. The Company mitigates liquidity risk through management of its working capital balance, monitoring actual and forecasted cash flows and using its operating loan facility when necessary. At March 31, 2018, this risk was limited by having positive cash flows from operations and a banking facility sufficient to meet all current liabilities.

Foreign currency exchange - transaction risk

Foreign currency exchange transaction risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's Canadian operations are primarily denominated in Canadian dollars with limited exposure to foreign currency exchange transaction risk through it's US denominated capital expenditures or financial instruments. From time to time the company may enter into forward currency contracts to manage this risk.

Foreign currency exchange - translation risk

The Company is exposed to foreign currency exchange translation risk as revenues, expenses and working capital from its US operations are denominated in US dollars. In addition, the Company's foreign subsidiaries are subject to unrealized foreign currency exchange translation gains or losses on consolidation.

Interest rate risk

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

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.

12. Change in Non-Cash Working Capital

	Three Months Ended March 31	
$Thousands	**2018**	2017
Change in non-cash working capital:		
Accounts receivable	**$ 1,295**	$ 2,294
Prepaid expenses and other	**(1,198)**	(682)
Accounts payable and accrued liabilities	**(2,931)**	1,582
Change in non-cash working capital	**$ (2,834)**	$ 3,194
Pertaining to:		
Operations	**$ 379**	$ 5,679
Investing	**(3,213)**	(2,485)
Change in non-cash working capital	**$ (2,834)**	$ 3,194

DEBT AND EQUITY

13. Dividends per Share

The following table provides a history of dividends for 2017 and 2018 to date:

Declaration Date	Payment Date	Per Share	Total ($000's)
March, 2017	April, 2017	$ 0.085	$ 1,525
May, 2017	July, 2017	$ 0.085	$ 1,525
August, 2017	October, 2017	$ 0.085	$ 1,525
November, 2017	January, 2018	$ 0.085	$ 1,525
March, 2018	**April, 2018**	**$ 0.085**	**$ 1,525**

14. 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

The shares outstanding at March 31, 2018, March 31, 2017 and December 31, 2017 are:

(Number of Shares)	Class A Non-Voting	Class B Common	Total
Shares outstanding	**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 2018 to date or during 2017.

PERSONNEL

15. Share-Based Compensation Plans

Stock Options

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

(Number of options)	March 31, 2018	March 31, 2017	December 31, 2017
Reserved under the current stock option plan [(1)]	**3,100,000**	3,100,000	3,100,000
Balance at beginning of year	**822,000**	818,500	818,500
Expired during the period	**—**	—	101,000
Granted during the period	**—**	—	(97,500)
Available for future issuance at end of period	**822,000**	818,500	822,000

[(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-based compensation plans as of March 31, 2018 and March 31, 2017, and changes during the periods ended on those dates is presented below:

	2018			2017		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Options outstanding at January 1	876,000	$	10.57	879,500	$	10.83
Options granted	—		—	—		—
Options outstanding at March 31	876,000	$	10.57	879,500	$	10.83
Options granted				97,500	$	8.26
Options expired				(101,000)	$	11.67
Options outstanding at December 31				876,000	$	10.57
Options exercisable at March 31	620,500	$	11.16	586,000	$	11.32
Options exercisable at December 31				620,500	$	11.16

The following table summarizes outstanding stock options at March 31:

			2018			2017		
Vesting Period (Years)		Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
5	$	9.87	130,000	2.0	130,000	150,000	3.0	150,000
5	$	10.32	—	—	—	6,000	4.0	6,000
5	$	10.32	76,000	3.0	76,000	91,000	4.0	91,000
5		10.86	82,500	4.0	82,500	97,500	5.0	97,500
5	$	13.81	87,500	5.5	87,500	102,500	6.5	82,000
5	$	16.02	115,000	6.4	92,000	130,000	7.4	78,000
5	$	10.28	90,000	7.0	54,000	105,000	8.0	42,000
5	$	7.13	197,500	8.0	79,000	197,500	9.0	39,500
5	$	8.26	97,500	9.0	19,500			
Weighted Average Contractual Life				5.8			6.3	

Deferred Share Units

A summary of the status of the Company's deferred share unit plan as of March 31, 2018, March 31, 2017, and December 31, 2017, and changes during the periods ended on those dates is presented below:

	2018			2017		
	Deferred Share Units (#)		Fair Value ($000's)	Deferred Share Units (#)		Fair Value ($000's)
Deferred share units outstanding at January 1	52,732	$	388	32,402	$	274
Issued in lieu of dividends	627		4	266		2
Redeemed in the quarter	—		—	(6,134)		(52)
Change in fair value during the period	—		3	—		2
Deferred share units outstanding at March 31	53,359	$	395	26,534	$	226
Granted during the period				24,705		210
Issued in lieu of dividends				1,493		11
Change in fair value during the period				—		(59)
Deferred share units outstanding at December 31				52,732	$	388

Share-Based Compensation Expense

	Three Months Ended March 31			
$Thousands		2018		2017
Stock option expense	$	45	$	61
Deferred share unit expense		7		4
Total share-based compensation expense	$	52	$	65

The Company did not issue any stock options in the first quarter of 2018 or the corresponding period of 2017.

OTHER NOTES

16. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At March 31, 2018, the Company had one joint venture drilling 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 March 31, 2018, the Company had capital expenditure commitments of $628,000 (March 31, 2017 - $4,218,000 and December 31, 2017 – $2,532,000).

17. 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 financial statements or note disclosures are described below. The Company is currently evaluating the impact of these new standards on its financial statements.

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. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability are recognized. The only exceptions are for short-term and low-value leases. Some of the company's lease commitments may be covered by the exception for short-term and low-value leases and some lease commitments may relate to arrangements that will not qualify as leases under IFRS 16.

IFRS 16 is mandatory for the first interim periods within annual reporting periods beginning on or after January 1, 2019. The Company does not intend to adopt the standard before its effective date.

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

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Share Symbol/TSX

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

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