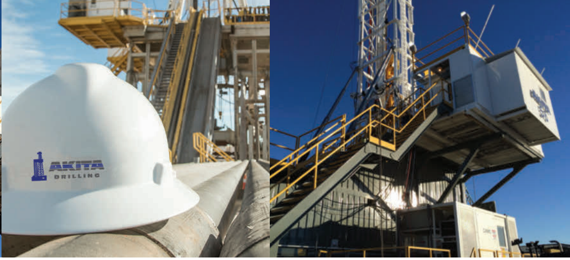

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CORPORATE PROFILE

AKITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling operations throughout North America. The Company strives to be the industry leader in customer relations, First Nations and Aboriginal partnerships, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in pad and other purpose-built drilling rigs and is active in directional, horizontal and underbalanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs, at full operations, approximately 1,000 people. The Company has ownership in 40 drilling rigs in all depth ranges.

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From time to time AKITA Drilling Ltd. ("AKITA" or the "Company") makes written and verbal forward-looking statements. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our business, our outlook for our industry and our risk management discussion. Forward-looking statements are typically identified with words such as "believe", "expect", "forecast", "anticipate", "intend", "estimate", "plan" and "project" and similar expressions of future or conditional events such as "will", "may", "should", "could" or "would".

By their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers, world oil and North American natural gas prices, weather, access to capital markets and government policies. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Additional information about these and other factors can be found under the "Business Risks and Risk Management" section of the Management's Discussion and Analysis of this 2018 Annual Report for AKITA.

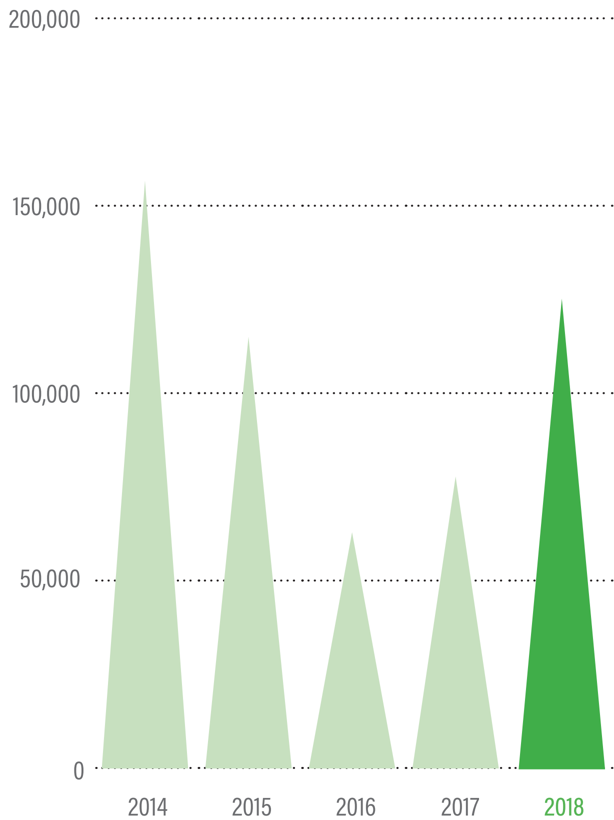
Annual Meeting

The annual meeting (the "Meeting") of the shareholders of AKITA Drilling Ltd. (the "Company") will be held in the Grand Lecture Theater, The Metropolitan Conference Centre, 333 – 4th Avenue S.W., Calgary, Alberta on Tuesday, May 14, 2019 at 10:00 a.m. Shareholders and other interested parties are encouraged to attend.

OPERATIONAL PERFORMANCE

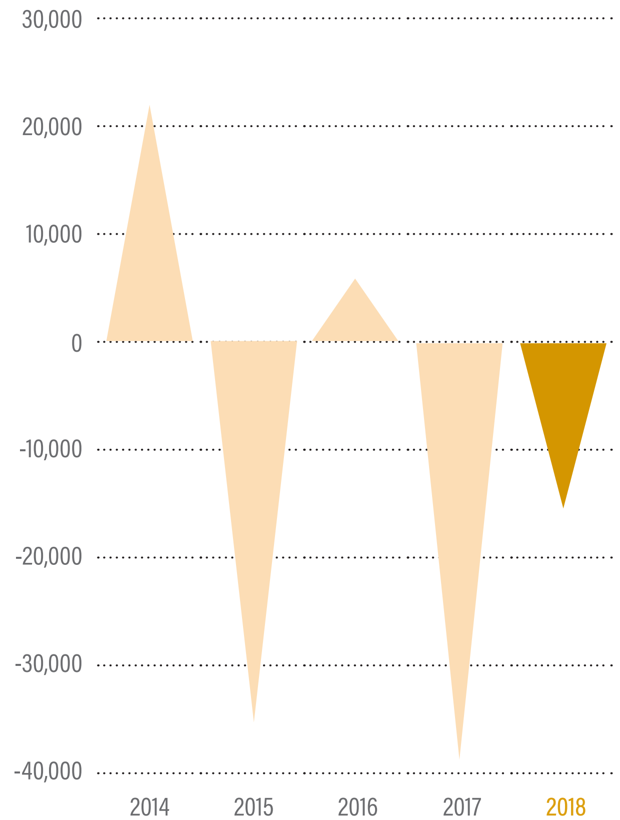
Revenue ($000's)

In 2018, revenue was 66% higher than 2017 with the expansion into the United States.



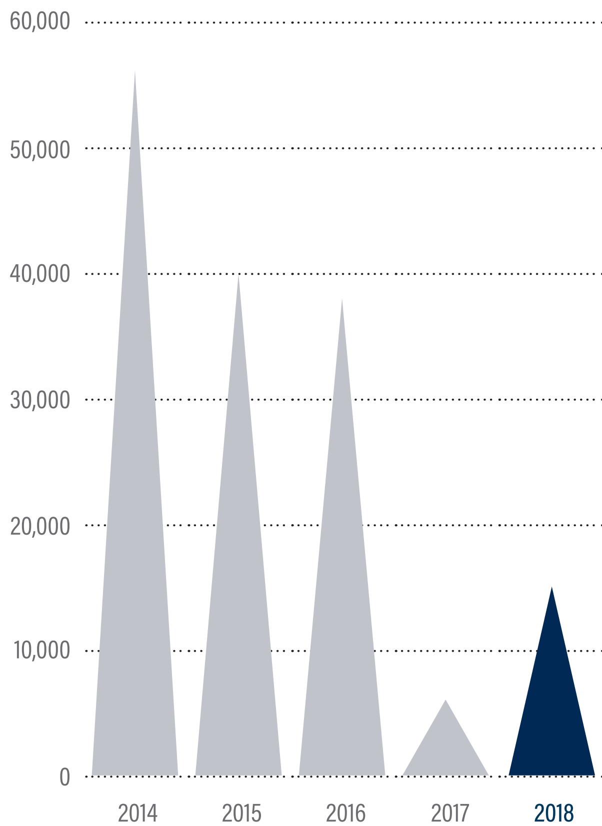
Net Earnings (Loss) ($000's)

AKITA's net loss improved by 60%.



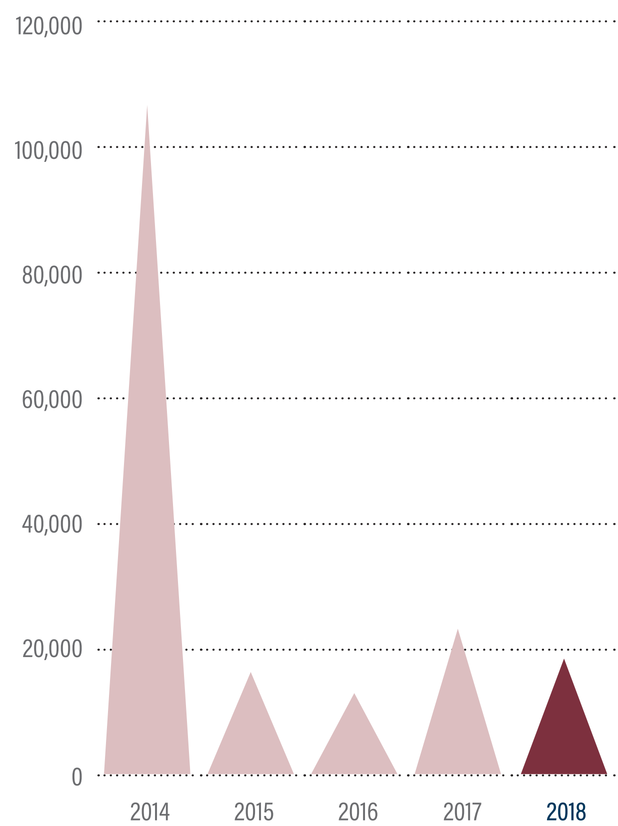
Funds Flow from Continuing Operations ($000's)

Annual funds flow improved 117% in 2018 compared to 2017.



Capital Expenditures ($000's)

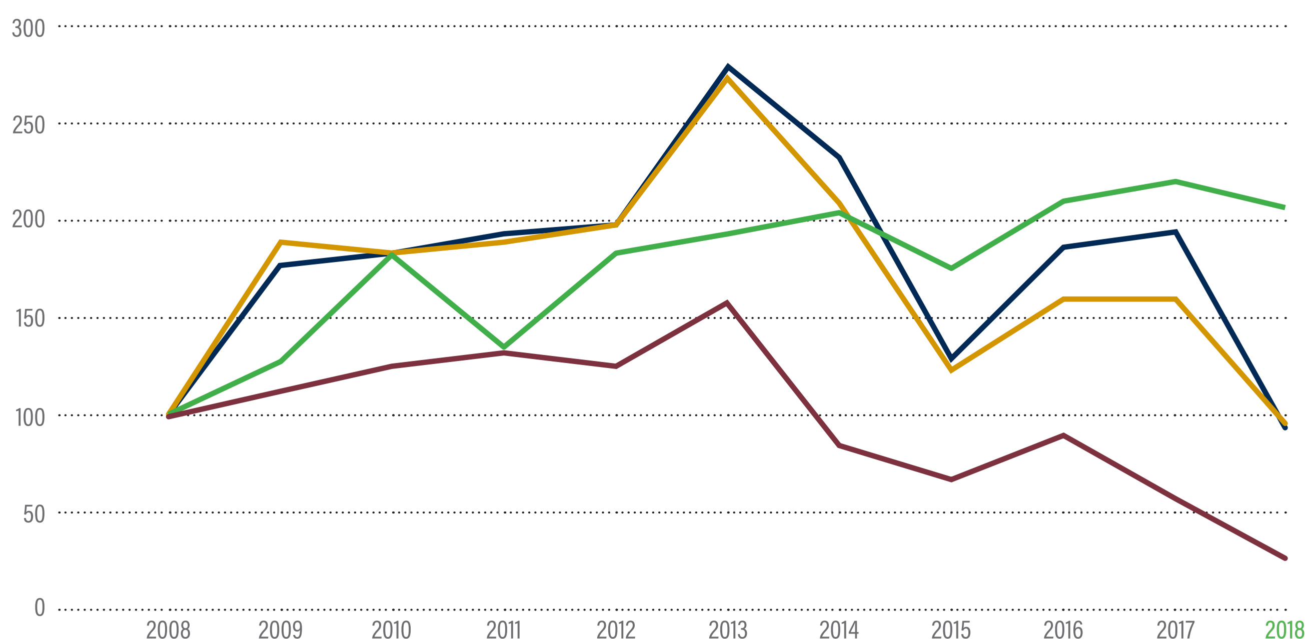
AKITA's 2018 capital expenditure program was down from 2017 as AKITA did not build any new rigs in 2018.



SHARE PERFORMANCE

The graph below compares the cumulative return over the last ten years on the Class A Non-Voting shares and Class B Common shares of the Company from December 31, 2018 with the cumulative total return of the TSX/S&P Composite Stock Index and the TSX Oil & Gas Drilling Sub-Index over the same period, assuming reinvestment of dividends.

Ten Year Total Return on $100 Investment



	Dec 31 2008	Dec 31 2009	Dec 31 2010	Dec 31 2011	Dec 31 2012	Dec 31 2013	Dec 31 2014	Dec 31 2015	Dec 31 2016	Dec 31 2017	**Dec 31 2018**
AKITA Class A Non-Voting Shares	100	155	160	174	186	287	231	131	171	180	**91**
AKITA Class B Common Shares	100	167	160	168	185	284	212	126	162	161	**96**
TSX/S&P Composite Index	100	135	159	145	155	176	194	178	216	235	**214**
TSX Oil & Gas Drilling Sub-Index	100	114	126	140	124	152	95	68	90	54	**38**

Share Performance

		2014	2015	2016	2017	**2018**
Weighted average number of Class A and Class B shares		17,988,552	17,969,415	17,948,502	17,945,661	**24,551,542**
Total number of Class A and Class B shares		17,988,552	17,969,415	17,948,502	17,945,661	**39,608,191**
Market prices for Class A Non-Voting shares	High	$17.86	$12.56	$9.20	$9.88	**$8.38**
	Low	$11.15	$6.10	$5.88	$6.52	**$3.41**
	Close	$12.40	$6.79	$8.45	$7.36	**$4.07**
Volume		2,093,823	1,603,746	930,748	1,324,111	**2,192,522**
Market prices for Class B Common shares	High	$18.30	$13.30	$11.00	$9.95	**$8.16**
	Low	$11.75	$6.87	$7.11	$6.94	**$3.77**
	Close	$12.00	$6.87	$8.53	$7.61	**$4.60**
Volume		21,019	32,326	18,674	41,479	**19,313**

Dividend History

AKITA began paying dividends to shareholders in 1996. It is the current intention of the Board of Directors to continue to pay quarterly dividends in the future. Nevertheless, the payment of any dividend is at the discretion of the Board of Directors and depends upon the financial condition of the Company and other factors.

	2014	2015	2016	2017	**2018**
Dividends per share ($)	0.34	0.34	0.34	0.34	**0.34**

LETTER TO THE SHAREOWNERS

In the US the Company is looking to 2019 with optimism.

Demand for AKITA's US rigs remains strong.

AKITA Drilling Ltd.'s net loss for the year ended December 31, 2018 was $15,939,000 (net loss of $0.65 per share (basic and diluted)) on revenue of $118,361,000 compared to a net loss of $39,177,000 or $2.18 loss per share (basic and diluted) on revenue of $71,198,000 in 2017. Included in the 2017 net loss is an asset decommissioning and impairment expense of $29,123,000 (after tax effect of $15,320,000 or $0.85 per share). Funds flow from operations for the current year was $14,306,000 compared to $6,607,000 in 2017, while net cash from operating activities for 2018 was ($8,494,000) compared to $5,074,000 in 2017.

On September 11, 2018, AKITA closed on its transformational acquisition of Xtreme Drilling Corp. ("Xtreme"), a TSX listed United States ("US") based contract drilling company with a fleet of 13 high specification AC triple drilling rigs, operating throughout major resource plays of the US, plus spare equipment and real estate. With this acquisition, and the movement of three rigs from AKITA's Canadian fleet to the US in 2018 in addition to the rig deployed in Q4 of 2017, AKITA's fleet of rigs in the US has increased to 17 rigs. The Company is now well-balanced with 23 rigs in Canada and 17 in the US.

In Canada, the Company's utilization for the year decreased to 33% in 2018 from 36% in 2017. Sentiment in the Canadian energy industry shifted from optimism in the first quarter of 2018 to pessimism in the fourth quarter of 2018. Regulated production cuts, pipeline access and political and regulatory uncertainty are all weighing heavily on the Canadian energy industry, which in turn is affecting drilling activity. There is still an oversupply of rigs in Canada and day rates remain low, despite improving to $31,354 per operating day in 2018 from $26,704 in 2017. Without a significant shift in demand for rigs or a reduction in the overall Canadian rig fleet, AKITA

does not anticipate any significant price increases or activity increases in Canada in the near future.

On November 22, 2018, the Canadian Association of Oilwell Drilling Contractors (“CAODC”) released its 2019 industry drilling forecast, estimating 33% average rig utilization, up from the 29% actual average rig utilization in 2018, and estimating 6,962 wells in 2019, up from 6,911 in 2018. The 2019 forecast was based upon commodity price assumptions of US $58.75 per barrel for crude oil and CAD $2.00 per mcf for natural gas. Based on the CAODC forecast it would appear that 2019 will be very similar to 2018. Without improvements to the existing takeaway capacity in Canada, growth in the Canadian market may remain challenged. The Company’s focus in 2019 will be on reducing costs in its Canadian operations.

AKITA’s activity in the US, on a weighted average basis, calculated on the days that the rigs were owned by AKITA and physically in the US was 61% for 2018 and 79% for the three months ended December 31, 2018. In the US the Company is looking to 2019 with optimism. Demand for AKITA’s US rigs remains strong as AKITA’s culture of “best-in-class” operations permeates through its US division. At December 31, 2018, 15 of the Company’s 17 US rigs were operating and strong utilization is expected to continue through 2019. Together with ongoing evaluation of opportunities to move additional Canadian rigs to the US, synergy realization related to the Xtreme acquisition and a modest capital program will be the focus of AKITA in the US.

Despite 2018 proving to be another challenging year, AKITA’s Board of Directors maintained a quarterly dividend to shareowners in the amount of $.085 cents per share.

We would like to express a special thanks to AKITA’s employees for their adaptability, hard work and commitment. We would also like to express our appreciation to our partners, customers and suppliers who worked closely with us during 2018 to come up with innovative solutions for working through challenging times in Canada and in establishing the Company’s presence in the US. Finally, we wish to acknowledge the contribution of our directors, whose thoughtful counsel and guidance have helped to create, maintain and grow a strong and successful Company, and the AKITA Shareowners for their continued support and confidence in the Company.

On behalf of the Board of Directors,

Linda A. Southern-Heathcott
Chairman of the Board

Karl A. Ruud
President and Chief Executive Officer

March 5, 2019

MANAGEMENT'S DISCUSSION & ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of AKITA Drilling Ltd. ("AKITA" or the "Company"). The MD&A discusses the operating and financial results for the year ended December 31, 2018, is dated March 5, 2019, and takes into consideration information available up to that date. The MD&A is based on the audited annual consolidated financial statements of AKITA for the year ended December 31, 2018. The MD&A should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2018, prepared in accordance with International Financial Reporting Standards (IFRS).

Additional information is available on AKITA's website (www.AKITA-Drilling.com) and all previous public filings, including the most recently filed Annual Report and Annual Information Form, are available through SEDAR (www.sedar.com).

All amounts are denominated in Canadian dollars (CAD$) unless otherwise identified. All amounts are stated in thousands unless otherwise identified.

Financial Highlights

($thousands except per share amounts)	2018	2017	Change	% Change
Revenue	118,361	71,198	47,163	66%
Operating expenses	86,575	62,156	24,419	39%
Operating margin (1)	31,786	9,042	22,744	252%
Margin % (1)	27%	13%	14%	108%
Adjusted EBIDTA (1)	16,447	3,187	13,260	416%
Per share	0.67	0.18	0.49	272%
Adjusted funds flow from operations (1)	14,306	6,607	7,699	117%
Per share	0.58	0.37	0.21	57%
Net loss	15,939	39,177	(23,238)	(59%)
Per share	0.65	2.18	(1.53)	(70%)
Capital expenditures	17,546	20,569	(3,023)	(15%)
Dividend declared	9,784	6,100	3,684	60%
Weighted average shares outstanding	24,552	17,946	6,606	37%
Total Assets	403,641	207,497	196,144	95%

(1) See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".

Operational Highlights

	2018	2017	Change	% Change
Operating days [1]				
Canada	2,800	3,659	(859)	(23%)
United States	1,783	-	1,783	n/a
Revenue per operating day [1]				
Canada [2]	31,354	26,704	4,650	17%
United States	29,932	-	29,932	n/a
Operating and maintenance per operating day [1]				
Canada [2]	23,160	22,226	934	4%
United States	21,329	-	21,329	n/a
Utilization [1]				
Canada	33%	36%	(3%)	(8%)
United States [3]	61%	-	61%	n/a

[1] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".
[2] Includes AKITA's share of Joint Venture revenue and expenses. See commentary in "Basis of Analysis in this MD&A and Non-GAAP" items.
[3] Utilization in the US is a weighted average for the year based on the number of days each rig was physically in the US and owned by the Company.

Introduction

AKITA is a premier Canadian oil and gas drilling contractor with operations in Canada and the United States ("US") with a fleet of 40 rigs. In 2018, AKITA began providing drilling services through two geographical segments: Canada and the US. With a fleet of 23 rigs, AKITA's Canadian division conducts operations in Alberta, British Columbia, Saskatchewan, and from time to time, in the Yukon and the Northwest Territories, primarily with its wholly-owned rigs and through its active joint ventures, the newly established Akita Mistiyapew Aski Drilling Ltd. (owned 50% by AKITA), Akita Equtak Drilling Ltd. (owned 50% by AKITA), and Akita Wood Buffalo Drilling Ltd. (owned 50% by AKITA), each of which has defined geographical boundaries. With a fleet of 17 rigs, AKITA's US division conducts operations in North Dakota, Colorado, Utah, Wyoming, Texas, New Mexico, Oklahoma and Ohio.

With a singular focus on the provision of drilling services, rigorous crew training, rig maintenance and safety processes and adherence to a leading quality assurance – quality control program, AKITA strives to ensure it is well positioned to meet the most demanding requirements of global operators who offer long-lasting resource based drilling programs. The Company has utilized this strategy to enhance its development of pad drilling rigs designed for both heavy oil and unconventional natural gas formations.

General Overview

The financial results for the Company for 2018, when compared to 2017, improved in almost all metrics. Revenue increased to $118,361,000 from $71,198,000, net loss decreased to $15,939,000 from $39,177,000 and adjusted funds flow from operations[1] increased to $14,306,000 from $6,607,000. During 2018, AKITA focused on geographical diversification to the US as the Canadian oil and gas market struggled to sustain the slow recovery that began in 2017.

AKITA began its geographical diversification in the first quarter of 2018 with one drilling rig working in the Permian Basin in New Mexico and ended 2018 with 15 active rigs out of a total of 17 US-based drilling rigs. This growth was primarily the result of AKITA's acquisition of Xtreme Drilling Corp. ("Xtreme"), bolstered organically by the move of three additional Canadian rigs to the US over the course of 2018.

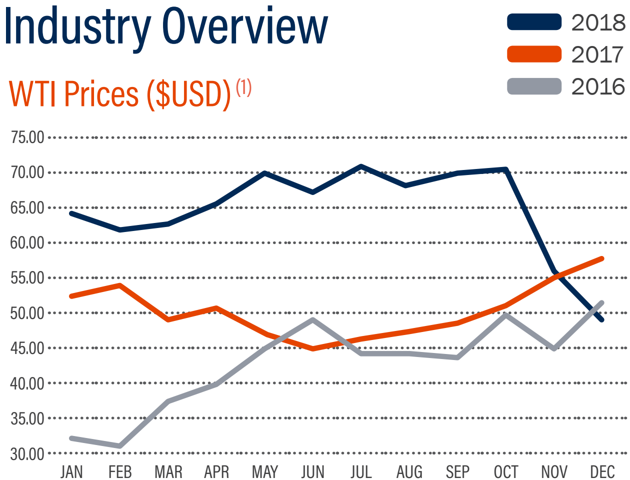
On September 11, 2018, AKITA closed its previously announced acquisition of Xtreme. The acquisition of Xtreme added 13 high-specification AC triple drilling rigs to the Company's US rig fleet as well as facilities, a skilled workforce and infrastructure throughout the US. The acquisition of Xtreme was funded with $122 million in Class A Non-Voting shares and cash of $45 million.

Conditions in the US continued to improve through 2018 until the fourth quarter of 2018 when prices for crude oil declined significantly which had a leveling effect on growth. In Canada, the growth was more subdued than in the US and the decrease in oil prices in the fourth quarter has had a more significant impact with many operators pausing or canceling capital spending. In 2018 three customers each provided more than 10% of AKITA's revenue for the year (2017 – two customers).

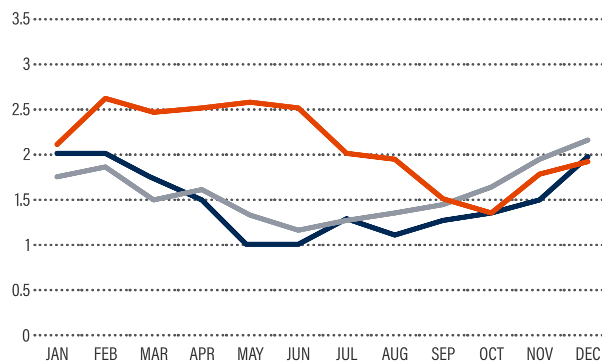
[1] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".

Industry Overview

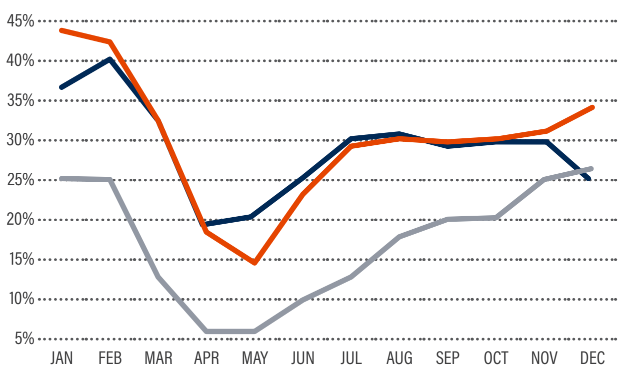
WTI Prices ($USD) (1)



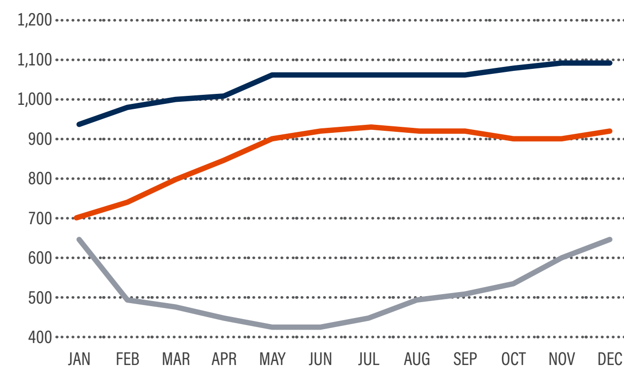
Alberta Natural Gas Price ($CAD) (2)



Industry Utilization Canada (3)



Active Rigs US (4)



1) Source: U.S. Energy Information Administration
2) Source: Natural Gas Exchange
3) Source: Canadian Association of Oilwell Drilling Contractors (CAODC)
4) Source: Baker Hughes North American Rotary Rig Count

Oil and gas contract drilling activity is cyclical and is affected by numerous factors, most importantly world crude oil prices and North American natural gas prices. Overall demand for drilling services improved in 2018 compared to 2017 in the US, and remained flat in Canada.

Driving the increase in activity in the US was the steady increase in oil prices through 2018, with the average West Texas Intermediate ("WTI") price increasing 26% in 2018 compared to 2017.

Results by Segment

Canada

$Thousands except per day amounts	2018	2017	Change	% Change
Revenue [1]	87,790	97,711	(9,921)	(10%)
Operating and maintenance [1]	64,847	81,325	(16,478)	(20%)
Operating income	22,943	16,386	6,557	40%
Margin %	26%	17%	9%	53%
Operating days	2,800	3,659	(859)	(23%)
Revenue per operating day [1] [2]	31,354	26,704	4,650	17%
Operating and maintenance per operating day [1] [2]	23,160	22,226	934	4%
Utilization	33%	36%	(3%)	(8%)
Rig count	23	27	(4)	(15%)

[1] Includes AKITA's share of Joint Venture revenue and expenses. See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".
[2] See commentary in "Basis of Analysis in this MD&A and Non-GAPP Items".

Utilization rates are a key statistic for the drilling industry since they directly affect total revenue and influence pricing. During 2018, AKITA achieved 2,800 operating days in Canada, which corresponds to an annual utilization rate of 33%, compared to 2017 utilization of 36% (3,659 days), and a 2018 industry average of 29%. Historically, AKITA's utilization in Canada has been above industry standard due to the higher than average number of pad drilling rigs in AKITA's fleet. Pad drilling rigs typically have higher utilization than conventional drilling rigs as pad drilling is a more efficient way to drill multiple wells without needing trucks to move.

Activity in Canada, for AKITA and the industry, decreased in 2018 from 2017 despite higher average WTI prices. Infrastructure constraints and uncertainty over the future of the Canadian market affected the capital spending of Canadian oil and gas companies.

Canadian revenue of $87,790,000 in 2018 was 10% lower than 2017 revenue of $97,711,000, due to decreased activity in 2018. Through a greater percentage of higher specification rigs working, revenue per day increased in 2018 to $31,354 per day from $26,704 per day in 2017, a 17% increase. This increase in revenue per day resulted in a 40% increase in operating income from the Canadian operating segment. Included in the Canadian operating results is AKITA's share of revenue and costs from its joint ventures as AKITA provides the same drilling services through its joint venture rigs as it does its wholly-owned rigs.

Operating and maintenance costs are tied to activity levels and decreased to $64,847,000 in 2018 from $81,325,000 in 2017 including AKITA's share of costs from its joint venture rigs. On a per day basis, 2018 remained consistent with the prior year, increasing only 4% in 2018 over 2017.

AKITA's Canadian segment provided drilling services to 29 different customers in 2018 (2017 - 35 different customers), including two customers that each provided more than 10% of AKITA's Canadian revenue for the year (2017 – two customers).

United States

$Thousands (CAD) except per day amounts	2018
Revenue	53,368
Operating and maintenance	38,029
Operating income	15,339
Margin %	29%
Operating days	1,783
Revenue per operating day (1)	29,932
Operating and maintenance per operating day (1)	21,329
Utilization (2)	61%
Rig count	17

(1) See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".
(2) Utilization in the US is a weighted average for the year based on the number of days each rig was physically in the US and owned by the Company.

AKITA moved one drilling rig from Canada to the Permian Basin in December of 2017, one in the first quarter of 2018 and two more in the third quarter of 2018. The Company added an additional 13 rigs through its acquisition of Xtreme in September of 2018, to end the year with a fleet of 17 rigs in the US.

Revenue in the US was $53,368,000 for 2018 (2017 – n/a) equal to 45% of the Company's total revenue. This revenue includes the full year for AKITA's US based rigs prior to the acquisition of Xtreme, and revenue from September 12 to December 31, 2018 generated by the acquired Xtreme assets. Total operating income, which is operating revenue less direct operating and maintenance costs, was $15,339,000 for the year.

Since the acquisition of Xtreme in September of 2018 the Company has focused on integrating AKITA and Xtreme to maximize the efficiencies available to the larger more diverse Company.

In the US, AKITA provided drilling services to 16 different customers in 2018 (2017 – n/a), including four customers that each provided more than 10% of AKITA's US revenue for the year (2017 – n/a).

Seasonality

The Canadian drilling industry is seasonal with activity typically building in the fall as the ground freezes and peaking during the winter months. Northern transportation routes become available once areas with muskeg conditions freeze to allow the movement of rigs and other heavy equipment. The peak Canadian drilling season typically ends with "spring break-up" at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land as frozen ground melts. The summer drilling season begins when road bans are lifted. Some areas are subject to environmental orders for specific well leases which can prevent drilling activity during certain periods when authorities prioritize wildlife or habitat protections. Such restrictions may affect activity levels and operating results.

While activity in the northern part of the US is subject to a degree of seasonality, North Dakota's Williston Basin, where AKITA operates, is less affected by spring break-up than are AKITA's operations in northern Canada. Other areas in the US where AKITA conducts drilling operations are infrequently subject to weather constraints, especially in the southern states, but may experience operational restrictions for other reasons.

While seasonality can affect all rig classes, pad drilling rigs are generally less susceptible to seasonality than conventional rigs.

Depreciation and Amortization Expense

$Millions	2018	2017	Change	% Change
Depreciation and amortization expense	26.6	27.1	(0.5)	(2%)

The decrease in depreciation and amortization expense to $26,614,000 during 2018 from $27,126,000 during 2017 was attributable to the asset decommissioning and asset impairment expense of $29,123,000 that was recorded in 2017. This expense decreased the Company's depreciable asset base. Drilling rig depreciation accounted for 97% of total depreciation and amortization expense in 2018 (2017 – 96%).

On January 1, 2018, AKITA changed its depreciation method to a straight-line calculation from a unit-of-production basis on drilling rig assets. The rationale for this change was to have rig depreciation more closely match the new lifecycle of rigs. Drilling technology is a critical component of modern drilling rigs and drilling rigs' useful lives are reduced as new technologies are utilized for modern drilling programs. As a result, the passage of time plays a more significant role than operating days in determining a drilling rig's life. Accordingly, 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 financial statements for 2018 is not material.

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	2018	2017	Change	% Change
Selling and administrative expenses	22.6	13.7	8.9	65%

Selling and administrative expenses increased to $22,611,000 in 2018 from $13,659,000 in 2017. The increase in 2018 is related to transaction costs of $2.4 million for the acquisition of Xtreme and the addition of the US-based selling and administrative costs to the Company's total cost.

Selling and administrative expenses equated to 19% of revenue in 2018, the same as in 2017. The single largest component of selling and administrative expenses was salaries and benefits which accounted for 33% of these expenses in 2018 (2017 – 51%).

Asset Decommissioning and Impairment

$Millions	2018	2017	Change	% Change
Asset impairment loss	-	16.0	(16.0)	(100%)
Asset decommissioning loss	-	13.1	(13.1)	(100%)
Asset decommissioning and impairment loss	-	29.1	(29.1)	(100%)

International Accounting Standard 36, "Impairment of Assets", requires an entity to consider both internal and external factors when assessing whether there are indications of asset impairment at each reporting period. At December 31, 2018, there were no internal indicators of impairment, however there were external indicators of impairment. The uncertainty around oil prices impacts the earnings potential of the Company's cash generating units ("CGUs") and at December 31, 2018, the book value of the Company's net assets was greater than its market capitalization; therefore, the Company tested its CGUs for impairment.

Upon completion of its asset impairment testing, the Company concluded that there was no asset impairment required at December 31, 2018 (2017 - $16,000,000). The Company also concluded that there were no reversals of previous asset impairments required at December 31, 2018.

The accuracy of asset impairment testing is affected by estimates and judgments in respect of the inputs and parameters that are used to determine recoverable amounts. In performing its asset impairment test at December 31, 2018, management determined value-in-use for each of its CGUs using estimated discounted cash flows, which included estimates of future cash flows, expectations regarding cash flow variability, a determination of the discount rate and consideration of the recoverable amount and salvage value of each CGU. At December 31, 2018, management determined recoverable amounts for its CGUs using a combination of value-in-use and fair value less costs to dispose. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value.

The assumptions used in the value-in-use impairment tests were based on the Company's Board approved 2019 budget and business plan covering a three year period and applied an average growth rate ranging from 2% to 9% over a 10 year period depending on the CGU being analyzed. In forecasting its projected cash flows the Company assumed that current market conditions will not persist into the future. The Company assumed a pre-tax discount rate of 13%, in order to calculate the present value of projected cash flows. Determination of this discount rate included analysis of the cost of debt and equity for the Company and the Canadian drilling industry incorporating a risk premium based on current market conditions. This valuation has a fair value hierarchy of Level 3.

Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions will not be realized. As a result, the following sensitivity analysis has been performed to recognize that additional outcomes are possible:

- Reduced future revenue assumptions by 5%;
- Increased inflation for cash outflows to 5%; and
- Increased the pre-tax discount rate from 13% to 15%.

As rigs are long-lived assets, no sensitivity adjustment was made for the projected forecast period.

The sensitivity tests resulted in reductions to the CGUs' values-in-use ranging from $9 million to $32 million. As the base case test represented management's best estimates, these sensitivity changes were not included in the recoverable amounts used in the 2018 asset impairment testing or the 2017 asset impairment loss reported.

Equity Income from Joint Ventures

Equity income from joint ventures is comprised of the following:

$Millions	2018	2017	Change	% Change
Proportionate share of revenue from joint ventures	22.8	26.5	(3.7)	(14%)
Proportionate share of operating & maintenance expenses from joint ventures	16.3	19.2	(2.9)	(15%)
Proportionate share of selling and administrative expenses from joint ventures	0.3	0.4	(0.1)	(25%)
Equity income from joint ventures	6.2	6.9	(0.7)	(10%)

The Company provides the same drilling services and utilizes the same management, financial and reporting controls for its joint venture activities as it does for its wholly-owned operations. The analyses of these activities are incorporated throughout the relevant sections of this MD&A relating to increased activity, revenue per day as well as operating expenses.

Other Income (Loss)

$Millions	2018	2017	Change	% Change
Interest income	0.1	0.4	(0.3)	(75%)
Interest expense	(2.1)	(0.2)	(1.9)	(950%)
Gain on sale of assets	0.6	0.2	0.4	200%
Net other gains	0.4	0.3	0.1	33%
Total other income (loss)	(1.0)	0.7	(1.7)	(243%)

Interest income decreased to $84,000 in 2018 from $439,000 in 2017 due primarily to less interest accrued on a long-term receivable that was paid in early 2018.

During 2018, the Company recorded interest expense of $2,121,000 (2017 – $168,000). The increase in interest is due to the use of the Company's credit facility to fund the acquisition of Xtreme, as well as the debt assumed as part of the transaction.

During 2018, the Company disposed of non-core assets resulting in a gain of $567,000 (2017 – $194,000).

In 2018, amounts reported as "Net Other Gains" of $453,000 included $227,000 in foreign exchange.

Income Tax Expense (Recovery)

$Millions, except income tax rate (%)	2018	2017	Change	% Change
Current tax expense (recovery)	0.1	(3.0)	3.1	103%
Deferred tax expense (recovery)	3.5	(11.1)	14.6	132%
Total income tax expense (recovery)	3.6	(14.1)	17.7	126%
Effective income tax rate	27.0%	26.8%		

AKITA had an income tax expense of $3,651,000 in 2018 compared to a tax recovery of $14,053,000 in 2017. The current tax expense in 2018 relates to the true-up of the 2017 tax return to the provision. Deferred tax increased to an expense of $3,508,000 in 2018 compared to a recovery of $11,063,000 in 2017. This change is a result of intercompany asset sales between jurisdictions and unrecognized deferred tax assets in 2018 compared to the asset impairment and decommissioning expense recorded in 2017 that reduced the Company's future tax liability.

Net Loss, Adjusted Funds Flow and Net Cash From (Used In) Operating Activities

$Millions	2018	2017	Change	% Change
Net loss	(15.9)	(39.2)	23.3	59%
Net cash from (used in) operating activities	(8.5)	5.0	(13.5)	(270%)
Adjusted funds flow from operations [1]	14.3	6.6	7.7	117%

During 2018, the Company recorded a net loss of $15,939,000 (net loss of $0.65 per Class A Non-Voting and Class B Common share (basic and diluted) compared to a net loss of $39,177,000 (net loss of $2.18 per Class A Non-Voting and Class B Common share (basic and diluted)) in 2017. The material difference in net income from 2017 to 2018 is largely attributable to the asset decommissioning and impairment expense in 2017 of $29,123,000, and the deferred tax recovery of $11,063,000 in 2017.

Net cash from (used in) operating activities decreased in 2018 to negative $8,494,000 in 2018 from positive $5,074,000 in 2017 due primarily to changes in non-cash working capital.

Adjusted funds flow from operations[1] increased to $14,306,000 in 2018 from $6,607,000 in 2017 due to an increase in operating days and revenue per day for the company as a whole. Increased US activity more than offset the decline in the Canadian market, resulting in an overall increase for the Company.

[1] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".

Summary of Quarterly Results

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

$Thousands, except per share (Unaudited)	Three Months Ended				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual Totals
2018					
Revenue	**27,089**	**17,293**	**22,465**	**51,514**	**118,361**
Net loss	**(1,912)**	**(2,959)**	**(5,459)**	**(5,609)**	**(15,939)**
Loss per share (basic and diluted) ($)	**(0.11)**	**(0.16)**	**(0.24)**	**(0.14)**	**(0.65)**
Adjusted funds flow from (used in) operations [1]	**4,519**	**1,638**	**(638)**	**8,787**	**14,306**
Cash flow from (used in) operations	**2,819**	**9,860**	**(7,428)**	**(13,745)**	**(8,494)**
2017					
Revenue	19,193	17,986	14,908	19,111	71,198
Net loss	(4,975)	(4,491)	(3,811)	(25,900)	(39,177)
Loss per share (basic and diluted) ($)	(0.28)	(0.25)	(0.21)	(1.44)	(2.18)
Adjusted funds flow from operations [1]	1,824	3,254	1,472	57	6,607
Cash flow from (used in) operations	3,399	3,407	969	(2,701)	5,074
2016					
Revenue	41,991	3,646	6,616	8,808	61,061
Net income (loss)	18,173	(4,062)	(4,668)	(4,114)	5,329
Earnings (loss) per share (basic and diluted) ($)	1.01	(0.23)	(0.26)	(0.23)	0.30
Adjusted funds flow from operations [1]	25,368	2,688	2,197	4,247	34,500
Cash flow from (used in) operations	12,843	2,219	(2,158)	(1,012)	11,892

[1] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".

Key trends over the past 12 quarters, after giving consideration to the seasonal nature of AKITA's operations, are as follows:

- Activity levels, which are directly correlated to revenue and net income, reached a low point of the current cycle in the second quarter of 2016 and were on the rise until the fourth quarter of 2018, and since then they have stalled in the US and declined in Canada;
- Strengthening activity has had a positive impact on day rates in both the US and Canada; however, demand for drilling services 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 in the balance of this account are tied to the timing of changes in various non-cash working capital accounts.

Fourth Quarter Analysis Operational Highlights

For the three months ended December 31,	2018	2017	Change	% Change
Operating days				
Canada	637	957	(320)	(33%)
United States	1,233	-	1,233	n/a
Revenue per operating day [1]				
Canada [2]	30,413	27,213	3,200	12%
United States	30,359	-	30,359	n/a
Operating and maintenance per operating day [1]				
Canada [2]	23,086	24,257	(1,171)	(5%)
United States	19,929	-	19,929	n/a
Utilization				
Canada	30%	37%	(7%)	(19%)
United States	79%	-	79%	n/a

[1] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".
[2] Includes AKITA's share of Joint Venture revenue and expenses. See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".

During the fourth quarter of 2018, the Company achieved 637 operating days in Canada compared to 957 operating days during the corresponding period in 2017. Falling crude oil prices have significantly affected demand for drilling services in the Canadian market along with mandated production cuts imposed by the Alberta government. This decrease in activity in Canada was offset by a busy fourth quarter for the Company in the US. The Company's 17 rigs in the US generated 1,233 days for a strong utilization of 79%.

AKITA incurred a net loss of $5,609,000 (net loss of $0.14 per Class A Non-Voting and Class B Common share (basic and diluted)) for the fourth quarter of 2018 compared to a net loss of $25,900,000 or $1.44 loss per share (basic and diluted) in the fourth quarter of 2017. The loss in 2017 is primarily attributable to the asset impairment and decommissioning expense of $29,123,000 recorded in the quarter. Adjusted funds flow from operations increased to $8,787,000 in the fourth quarter of 2018 from $57,000 in the corresponding quarter in 2017 due to the addition of the US operating segment in 2018.

Three Year Annual Financial Summary

The following table highlights AKITA's annual financial results for the last three years:

Three Year Summary $Thousands, except per share (Unaudited)	2018	2017	2016
Revenue	118,361	71,198	61,061
Net income (loss)	(15,939)	(39,177)	5,329
Earnings (loss) per share (basic and diluted)	(0.65)	(2.18)	0.30
Dividends per class A Non-Voting and Class B Common share	0.34	0.34	0.34
Adjusted funds flow from operations[1]	14,306	6,607	34,500
Net cash from (used in) operating activities	(8,494)	5,074	11,892
Year-end working capital	11,166	15,528	34,907
Year-end shareholders' equity	271,728	174,455	219,646
Year-end total assets	403,641	207,497	257,907

[1] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".

Liquidity and Capital Resources

At December 31, 2018, AKITA had $11,166,000 in working capital (working capital ratio of 1.31:1) including $1,503,000 in cash, compared to a working capital of $15,528,000 (working capital ratio of 2.02:1) and $560,000 cash for the previous year. In 2018, AKITA used $8,494,000 in cash for operating activities. Positive cash was generated from joint venture distributions ($5,808,000), from reductions in cash balances restricted for loan guarantees ($1,525,000) and from proceeds on sales of assets ($640,000). During the same period, cash was used for capital expenditures ($17,546,000) and payment of dividends ($7,942,000). Accounts payable at year end included $19,020,000 in accrued expenses, three quarters of which related to routine operations while the other quarter related to one-time items.

The Company chooses to maintain a conservative Statement of Financial Position due to the cyclical nature of the industry. In conjunction with the closing of the Xtreme acquisition, the Company entered into a new operating loan facility with its principal banker totalling $125,000,000 that is available until 2022. The operating loan facility was syndicated in the fourth quarter of 2018 with the Company's principal banker as the agent on the syndication and three other national banks joining the group. The interest rate on the operating loan facility ranges from 50 to 200 basis points over prime interest rates depending on the funded debt to EBITDA(1) ratio. Security for this facility includes all present and after-acquired property of the Company and a first floating charge over all other present and after-acquired property of the Company including real property.

The credit facility includes two financial covenants:

1. Funded Debt(1) to EBITDA(1) Ratio: the Company shall ensure that:

   i. for the Fiscal Quarter ending December 31, 2018, the Funded Debt(1) to EBITDA(1) Ratio shall not be more than 4.00:1.00;

   ii. for the Fiscal Quarter ending March 31, 2019, the Funded Debt(1) to EBITDA(1) Ratio shall not be more than 3.50:1.00; and

   iii. for the Fiscal Quarter ending June 30, 2019, and each Fiscal Quarter ending thereafter, the Funded Debt(1) to EBITDA(1) Ratio shall not be more than 3.00:1.00.

The Funded Debt(1) to EBITDA(1) Ratio shall be calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis; and

2. EBITDA(1) to Interest Expense(1) Ratio: the Company shall not permit the EBITDA(1) to Interest Expense(1) Ratio, calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis, to fall below 3.00:1.00.

The facility also includes a borrowing base calculation as follows:

The sum of:

i. 75% of Eligible Accounts Receivable(1); plus

ii. 40% of the net book value of all Eligible Fixed Assets(1); less

iii. Priority Payables(1) of the Loan Parties.

(1) Readers should be aware that each of the EBITDA, fundable debt, interest expense, eligible accounts receivable, priority payables and eligible fixed assets have specifically set out definitions in the loan facility agreement and are not necessarily defined by or consistent with either GAAP or determinations by other users for other purposes.

The new operating loan facility has been classified as long-term debt as the credit agreement has no required repayment obligations prior to the end of the loan facility term. The Company is in compliance with its operating loan facility covenants. At December 31, 2018, the Company had $68,822,000 outstanding on its operating loan facility (2017 - nil).

In addition to the Company's operating loan facility, the Company also had $14,117,000 in debt outstanding at December 31, 2018 that was assumed upon the acquisition of Xtreme.

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 further growth opportunities.

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

The Company did not have an outstanding normal course issuer bid during 2018 or 2017.

The following table provides a summary of contractual obligations for the Company:

Contractual Obligations $Thousands	Total	Less than 1 year	1-5 years
Operating leases	4,081	1,859	2,222
Purchase obligations	650	325	325
Capital expenditure commitments	3,302	3,302	Nil
Long-term pension obligations	4,712	Note	Note
Total contractual obligations	12,745		

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost for year one ranges from $90,000 to $242,000, for year two and beyond, from $90,000 to $315,000.

Property, Plant and Equipment

Capital expenditures totalled $17,546,000 in 2018 ($20,569,000 in 2017). Capital spending in 2018 was as follows; $7,400,000 for certifications and overhauls, $2,002,000 for drill pipe and drill collars and $8,144,000 for drilling rig equipment and upgrades. The costs incurred during 2017 for capital were $7,500,000 for the construction of a new pad double drilling rig, $7,574,000 for certifications and overhauls, $2,671,000 for drill pipe and drill collars and $2,551,000 for drilling rig equipment and upgrades and the balance of capital expenditures was for other equipment.

During 2018, the Company sold ancillary assets for $640,000 (2017 - $221,000) that resulted in a gain of $567,000 (2017 – $194,000).

Financial Instruments

The Company's financial assets and liabilities include cash, accounts receivable, restricted cash, accounts payable, accrued liabilities and financial instruments. Fair values approximate carrying values unless otherwise stated.

AKITA's expansion into the US increases the Company's exposure to risks inherent in foreign operations. The Company is exposed to risks caused by fluctuations in currency exchange rates. US contracts are denominated in United States dollars and, accordingly, a material decrease in the value of the US dollar could negatively impact revenues. The Company does not currently use hedges to offset this risk.

Despite the effect of weak commodity prices for crude oil and natural gas on AKITA's customers, management continues to consider the credit risk associated with accounts receivable to be generally low as substantially all counterparties are well-established and financed oil and gas companies. AKITA has conservative credit-granting procedures and in certain situations requires customers to make advance payment prior to provision of services or takes other measures to mitigate credit risk. Provisions have been estimated by management and are included in the accounts to recognize potential bad debts.

Off Balance Sheet Transactions

AKITA has not entered into any arrangements that involve off balance sheet transactions.

Related Party Transactions

AKITA is affiliated with the ATCO Group of companies and with Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. All related party transactions in 2018 and 2017 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Operating purchases totaled $410,000 and included sponsorship and advertising of $353,000 and other miscellaneous purchases of $57,000. At December 31, 2018, the outstanding commitment of the Company's multi-year sponsorship and advertising contract with Spruce Meadows was $650,000. Costs incurred related to this contract during 2018 were $325,000 (2017 - $325,000). Costs and related services are consistent with parties dealing at arm's length.

The Company incurred legal fees of $368,000 (2017 - $107,000) during the year for services related to various legal matters with a law firm of which a director of the Company was a partner at December 31, 2018. At December 31, 2018, $5,000 (December 31, 2017 - $22,000) of this amount was included in accounts payable.

The Company is related to its joint ventures. The accompanying table summarizes transactions and annual balances with its joint ventures. These transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts.

$Thousands	2018	2017
Revenue[(1)]	-	6
Operating and maintenance expenses	3,288	4,736
Selling and administrative expenses	448	531
Year-end accounts payable	1,299	1,044

[(1)] Joint venture revenue from related parties includes only intercompany asset movements and does not relate to drilling operations.

Class A and Class B Share Dividends

During 2018, AKITA declared dividends totalling $9,784,000 ($0.34 per share) on its Class A Non-Voting shares and Class B Common shares, compared to $6,100,000 ($0.34 per share) for 2017. The payment of any dividends is at the discretion of the Board of Directors and depends upon the financial condition of AKITA and other factors. Since the inception of the quarterly dividend program in 1997, dividends have been paid in each quarter of every year and the dividend rate has never been decreased. The most recent dividend was declared on March 5, 2019 with a dividend rate of $0.085 per share.

Per share	2018	2017	Change	% Change
Dividends per share ($)	0.34	0.34	0.00	0%

Class A Non-Voting and Class B Common Shares

Authorized

An unlimited number of Class A Non-Voting shares
An unlimited number of Class B Common shares

Issued

$Thousands, except share amounts	Class A Non-Voting Number of Shares	Class A Non-Voting Consideration	Class B Common Number of Shares	Class B Common Consideration	Total Number of Shares	Total Consideration
December 31, 2017	16,291,877	$ 22,505	1,653,784	$ 1,366	17,945,661	$ 23,871
Shares issued in 2018	21,662,530	122,393	-	-	21,662,530	122,393
December 31, 2018	**37,954,407**	**$ 144,898**	**1,653,784**	**$ 1,366**	**39,608,191**	**$ 146,264**

At March 5, 2019, the Company had 37,954,407 Class A Non-Voting shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 1,053,000 stock options outstanding, of which 756,000 were exercisable.

Accounting Estimates

The preparation of AKITA's consolidated 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 consolidated financial statements as well as reported amounts for revenue and expenses for the year. Estimates and judgments are continually evaluated and are based upon historical experience and other factors including expectations of future events that are believed to be reasonable in the circumstances. Actual outcomes could differ materially from these estimates.

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

The preparation of AKITA's consolidated financial statements requires management to make 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 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 financial statements for the year ended December 31, 2018 is not material.

AKITA's depreciation estimates do not have any effect on the changes to the financial condition for the Company, as depreciation is a non-cash item. However, total assets and

results of operations, including net income, could be either understated or overstated as a result of excessively high or low depreciation estimates.

At each reporting date, the Company assesses whether there are indicators of asset impairment. If such indicators exist, the Company performs an asset impairment test and, if required, the Company recognizes an asset impairment loss calculated as the lesser of the difference between the amortized cost of the asset and the present value of the estimated future cash flows or the recoverable amount. The carrying amount of the asset is reduced by the impairment loss.

AKITA's asset impairment estimates do not have any effect on the changes to financial condition for the Company, as any asset write-down would be a non-cash item. However, total assets and results of operations, including net income, could be overstated as a result of projections of discounted future cash flows that are too high.

A significant estimate used in the preparation of AKITA's consolidated financial statements relates to the long-term defined benefit pension liability for certain employees and retired employees that was recorded as $4,712,000 at December 31, 2018 (2017 - $4,832,000). Changes in AKITA's pension liability estimates do not have any effect on the changes to the financial condition of the Company, since the defined benefit pension is a non-cash item. However, total liabilities and results of operations, including net income, could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2018, a key assumption is the 3.6% discount rate (2017 – 3.3%).

The Company makes assumptions relating to 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.

Commitments

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 December 31, 2018, AKITA had no deposits with its bank for those purposes (December 31, 2017 - $1,525,000). These funds have been classified as "restricted cash" on the Consolidated Statements of Financial Position.

Business Risks and Risk Management

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to and must be read in conjunction with, the detailed information appearing elsewhere in this document. Shareholders and potential shareholders should consider carefully the information contained herein and, in particular, the following risk factors.

Crude Oil and Natural Gas Prices

Fluctuations and uncertainty surrounding the future price of commodities could lead to changes in demand for oil and natural gas, and may impact the economics of planned drilling projects and ongoing production projects, resulting in the curtailment, reduction, delay or postponement of such projects for an indefinite period of time. The price that AKITA's customers receive for their product has a direct impact on the cash flow available to them and the subsequent demand for drilling services provided by AKITA. An extended period of lower oil and natural gas prices could result in a decline in demand and reduced day rates. High volatility in crude oil and natural gas prices may also impact AKITA's customers' capital programs, causing delays in spending and lower overall demand for drilling services.

Competition

The contract drilling industry is highly competitive and includes a large number of drilling contractors with varied drilling rig fleets. Drilling contracts are usually awarded through a competitive bid process with pricing and drilling rig suitability and availability being primary drivers in the bid process. Other factors that influence the bid process include: mobility and efficiency of the drilling rig; experience and quality of service provided by rig crews; safety record of the rig as well as the contractor as a whole; and the adaptability of equipment to utilize new technologies. Rigs can be moved from one region to another depending on the competitive environment within that region and therefore a contractor's competitive advantage in a region can be quickly eroded by other contractors moving in equipment from other regions. Reduced levels of activity in the oil and gas industry can also increase competition and therefore lower day rates.

Operating Hazards

AKITA's operations are subject to numerous hazards inherent to the drilling industry, including but not limited to: fires or explosions, hydrocarbon influx or kicks, loss of well control, well blow-outs, cratering, collapse of the well, damage to, or loss of, drilling equipment and equipment lost down the hole. AKITA's insurance policies and contractual indemnity rights may not adequately cover all losses, and therefore, the Company may not have adequate insurance coverage or rights to indemnity for all risks. Pollution and environmental risks may not be fully insurable. AKITA generally attempts to obtain contractual protection against uninsured operating risks from its customers. However, customers who provide contractual indemnification protection may not in all cases maintain adequate insurance or otherwise have the financial resources necessary to support their indemnification obligations. AKITA's insurance or indemnification arrangements may not adequately protect it against liability or loss from all operating hazards. Further, certain states in the US where AKITA operates have anti-indemnity legislation that could preclude operator indemnification in certain circumstances. The occurrence of a significant event that has not been fully insured or indemnified against, the failure of a customer to meet its indemnification obligations to the Company, or the applicability of anti-indemnification legislation could materially and adversely affect the results of operations and financial condition.

Dependence on Major Customers

AKITA earned 34% of its total revenue in 2018 from three major customers. These were the only customers who individually provided over 10% of the Company's revenue for the year. The loss of one or more major customers or a significant reduction in the business done with any customer without offsetting new revenue could have a material adverse effect on AKITA's business, results of operations and prospects.

Seasonal Nature of Industry

In Canada, the level of activity in the contract drilling industry, particularly for conventional rigs, is influenced by seasonal weather patterns. Spring break-up, which typically occurs between mid-March and mid-June, makes the ground unstable leaving many secondary roads temporarily incapable of supporting the weight of heavy equipment, thereby reducing drilling activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenue.

Typically, there is greater demand for contract drilling services in the winter, as freezing permits the movement and operation of heavy equipment. Drilling activities tend to increase in the fall as the ground begins to freeze and peak in the winter months of November through February as areas having muskeg conditions also become accessible to drilling operations. Variability in the weather can therefore create unpredictability in activity and utilization rates. Unusually warm weather may limit access to drilling sites and could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Generally speaking, AKITA's US operations are less affected by seasonality than AKITA's Canadian operations. Areas in the US where AKITA operates are infrequently subject to weather constraints like hurricanes in the southern states, but may experience operational constraints such as floods, blizzards and other extreme winter conditions in the Rocky Mountain region in addition to operational restrictions for a variety of other reasons. These restrictions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Volatility of Industry Conditions

The demand, pricing and terms for contract drilling services are dependent upon the level of industry activity for Canadian and US crude oil and natural gas exploration and development. Industry conditions are influenced by numerous factors which AKITA does not control including (without limitation): current crude oil and natural gas prices, expectations about future crude oil and natural gas prices, the cost of exploring for, producing and delivering crude oil and natural gas, the expected rates of decline in current production for AKITA's

customers, discovery rates of new oil and gas reserves by AKITA's customers, available pipeline and other oil and gas transportation capacity, weather conditions, political, regulatory and economic conditions, influences from special interest groups, the use of energy generated from sources that are not crude oil or natural gas based, the ability of oil and gas companies to raise equity capital or debt financing and technological advances in the exploration and production of crude oil and natural gas.

The level of activity in both the Canadian and US oil and gas exploration and production industries is volatile. No assurance can be given that the expected trends in oil and gas exploration and production activities will continue or that demand for contract drilling services will reflect the level of activity in the industry. Current global economic events and uncertainty have significantly affected, and may continue to significantly affect, commodity pricing. Any prolonged substantial reduction in crude oil and natural gas prices would likely continue to affect oil and gas production levels and therefore adversely affect the demand for drilling services to oil and gas customers. Any elimination or curtailment of government incentives or adverse changes in government regulation could have a significant impact on the contract drilling industry in Canada or in the US. These factors could lead to a further decline in demand for AKITA's services which could result in a material adverse effect on AKITA's business, financial condition, results of operations and cash flows.

Labour

The contract drilling industry is dependent upon attracting, developing and maintaining a skilled and safe workforce. During periods of peak activity levels, AKITA is susceptible to increased labour costs as a result of a competitive labour market or may be faced with a lack of experienced personnel to operate AKITA's equipment. AKITA is also faced with the challenge of retaining employees during periods of low utilization. The Company's financial results depend, at least in part, upon its ability to attract, develop and maintain a skilled workforce, while maintaining a cost structure that varies with activity levels.

A number of AKITA's key customers evaluate the ability of contract drilling companies to provide and maintain a high standard of safe operations prior to their selecting a drilling contractor for the provision of drilling services. AKITA's financial success is related to its ability to continue to meet those expectations.

Capital Overbuild in Contract Drilling Industry

Drilling rigs have a long life span. Further, there is a significant lag between when the decision to build a rig is made and when the construction is complete. These two factors contribute to the supply of rigs in the industry not always aligning with the demand for drilling rigs. High demand typically spurs greater capital expenditures by drilling contractors which may, in turn, lead to excessive supply in future periods. A potential capital overbuild could lead to a general reduction in day rates in the industry as a whole, which could have a material adverse effect on AKITA's business, financial condition, results of operations and cash flows.

Access to Additional Financing

AKITA may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, undertake capital expenditures or undertake acquisitions or other business combination activities. There can be no guarantee that AKITA will have access to the required capital as its ability to do so is dependent on, among other factors, the overall state of capital markets, interest rates, the oil and gas industry as well as the appetite for investment in the oilfield drilling industry. An inability to obtain necessary financing, on terms that are acceptable to AKITA, could limit AKITA's growth and could have a material adverse effect on AKITA's business, financial condition and cash flows in the future.

Foreign Exchange and Foreign Operations Risk

AKITA's expansion into the US increases the Company's exposure to risks inherent in foreign operations. The Company is exposed to risks caused by fluctuations in currency exchange rates. US contracts are denominated in United States dollars and, accordingly, a material decrease in the value of the United States dollar could negatively impact revenues.

In addition to foreign exchange, risks include, but are not limited to: different taxation regimes, potential litigation and potential political protectionist measures. While AKITA has increased its insurance coverage to offset the increased chance of litigation and has engaged third party experts to assist in taxation matters, there can be no assurance that the Company will be fully effective in mitigating foreign operation risks. Such risks could have material adverse effects on AKITA's business, financial condition, results of operations and cash flows.

Debt Service

AKITA has a syndicated credit facility. Variations in interest rates and principal repayments, under the terms of the facility,

could result in significant changes in the amount required to be applied to debt service before payment of any amounts by AKITA. Although management's view is that AKITA's current facility is sufficient, there is no assurance that it will be adequate for the future financial obligations of AKITA or that additional funds can be obtained if required.

AKITA's credit facility is a revolving facility which matures on September 11, 2022 and is subject to annual extensions of an additional year on each anniversary date of the closing date, contingent upon the consent of the lenders holding two-thirds of the aggregate commitments under the facility. To the extent the facility is not extended, the drawn down principal would be due on the maturity date. Interest payments are required quarterly and are based on the Canadian prime rate for Canadian prime rate loans and the US prime rate for US rate loans.

Regulation of Industry

AKITA's operations are subject to a variety of federal, provincial, state and local laws, regulations and guidelines relating to health and safety, the conduct of operations, the operation of equipment used in drilling operations and the transportation of materials and equipment provided to customers. Compliance with, or breaches of, such laws, or costs or implications of changes to such laws, regulations and guidelines could have a material effect on AKITA's business, financial condition, results of operations and cash flows.

Environmental Regulations

AKITA's operations are subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment. These laws, regulations and guidelines include those relating to spills, releases, emissions and discharges of hazardous substances or other waste materials into the environment, requiring removal or remediation of pollutants or contaminants and imposing civil and criminal penalties for violations. Some of the laws, regulations and guidelines that apply to AKITA's operations also authorize the recovery of natural resource damages by governmental authorities, injunctive relief and the imposition of stop, control, remediation and abandonment orders. The costs arising from compliance with such laws, regulations and guidelines may be material to AKITA. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes and the use and handling of chemical substances. These restrictions and limitations have increased operating costs for both AKITA and AKITA's customers. Any regulatory changes that impose additional environmental restrictions or requirements on AKITA or AKITA's customers could adversely affect AKITA through increased operating costs or decreased demand for AKITA's services, or both.

Certain general oilfield related activities have been controversial. In recent years, development of oil sands, the use of hydraulic fracturing on sedimentary rock formations and transportation of crude oil and natural gas have each encountered opposition. Ongoing delays or cancellation of these types of activities could reduce demand for AKITA's services.

While AKITA maintains liability insurance, including insurance for environmental claims, there can be no assurance that insurance will continue to be available to AKITA on commercially reasonable terms, that the possible types of liabilities that may be incurred by AKITA will be covered by AKITA's insurance, or that the dollar amount of such liabilities will not exceed AKITA's policy limits.

Even a partially uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on AKITA's business, results of operations and prospects.

Key Management

The success and growth of AKITA are dependent upon AKITA's key management personnel. The loss of services of any of such persons, without suitable replacements, could have a material adverse effect on the business and operations of AKITA. While this risk is mitigated by ongoing succession planning, no assurance can be provided that AKITA will be able to retain key management members.

Dividends

Any decision to pay dividends on AKITA shares will be made by the Board of Directors, at the Board's sole discretion. There can be no assurance that AKITA will pay dividends in the future.

Dilution

AKITA may make future acquisitions or enter into financings or other transactions involving the issuance of securities of AKITA, which may be dilutive.

Leverage and Restrictive Covenants

AKITA has third party debt service obligations under its credit facility. The degree to which AKITA is leveraged could have important consequences to shareholders, including:

1. a portion of the consolidated cash flow from operations could be dedicated to the payment of the principal and interest on its indebtedness, thereby reducing cash available for dividend payments; and

2. certain borrowings are at variable rates of interest, which exposes AKITA to the risk of increased interest rates.

AKITA's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control.

AKITA's credit facilities contain certain customary operating covenants that limit the discretion of management to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, AKITA is required to satisfy and maintain two financial ratio tests, Debt to EBITDA and EBITDA to Interest Expense. A failure to comply with the obligations in the agreements with respect to the credit facilities, could result in an event of default which, if not cured or waived, could permit acceleration of the repayment of the relevant indebtedness. If the repayment of the indebtedness under the credit facilities were to be accelerated, there can be no assurance that AKITA's assets would be sufficient to repay the debt.

Energy Alternatives

AKITA's management cannot predict the impact of changing demand for crude oil and natural gas products. Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to crude oil and gas and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil, natural gas and other liquid hydrocarbons. Any major change in demand for crude oil, natural gas or other liquid hydrocarbons could result in a reduction in the demand for drilling services and could have a material adverse effect on AKITA's business, financial condition, results of operations and cash flows.

Risk Management

AKITA manages its risks by:

- *maintaining a conservative balance sheet that includes a low cost structure for the Company including limited use of financial leverage;*
- *having its risk management committee deliberate periodically to assess, evaluate and develop a plan to deal with the risk conditions for the Company;*
- *developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures;*
- *continuously developing long-term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle;*
- *obtaining multi-year rig contracts whenever possible, but especially when tailoring rig construction or reconfiguration to customer demand;*
- *maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program;*
- *continually upgrading its rig fleet;*
- *employing well trained, experienced and responsible employees;*
- *ensuring that all employees comply with clearly defined safety standards;*
- *reducing health, safety and operational risk by maintaining its API Q2 certification in Canada;*
- *improving the skills of its employees through training programs;*
- *maintaining effective systems of internal control to safeguard assets and ensure timely and accurate reporting of financial results;*
- *maintaining comprehensive insurance policies with respect to its operations;*
- *reducing environmental risk through the implementation of industry-leading standards, policies and procedures;*
- *developing and maintaining a succession plan to provide for a smooth transition in the event of key personnel turnover; and*
- *most recently by diversifying into the US market where demand for drilling services is correlated to West Texas Intermediate pricing, rather than Western Canadian Select pricing as in Canada, which allows AKITA to generate revenue denominated in US currency.*

Future Outlook and Strategy

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

In Canada, sustained low commodity prices for crude oil and natural gas continued to have a significant dampening effect on the drilling industry in 2018, which translated to reduced capital spending by oil and gas companies. Reduced spending resulted in lower utilization and significant pricing pressure on day rates. The downward trend in the prices of crude oil and natural gas that began in 2014 showed signs of recovery early in 2018, then began to weaken again over the course of the fourth quarter.

The Company is not anticipating a significant recovery in Canadian activity in 2019. Insufficient pipeline capacity, arguably the main challenge to the Canadian drilling industry in Canada, remains unresolved. There is an oversupply of rigs in the Canadian market compared to the current demand. While this situation may change if drillers continue to move rigs into the more profitable US market from Canada, until fundamentals improve, the Company is not expecting improved economics in Canada. Accordingly, the Company's focus for its Canadian division in 2019 will be on cost control and maintaining a strong fleet that is well-positioned to participate in the eventual Canadian market recovery.

With both higher day rates and utilization levels, drilling conditions across the US were much more robust than in Canada over the course of 2018. As operators continue to migrate to higher specification drilling rigs in the US, AKITA's high specification US fleet is well equipped to satisfy this demand. Strong relationships with key operators in the US were established by the Company in only its first year of operations since it entered the US. The Company plans to leverage the relationships it forged on its own, together with the strong customer base it inherited in the Xtreme acquisition, to potentially add drilling rigs to its 17 rig US fleet. Additional rigs will improve upon the economy of scale in the US that AKITA has already established. Accordingly, the Company's focus for its US division in 2019 will be on retaining strong performance and utilization over the course of the entire year, while evaluating opportunities to transfer additional, idle drilling rigs from Canada to the stronger US market.

AKITA is planning a Canadian capital budget of maintenance capital. In the US capital spending will be focused on maintenance capital with discretionary rig upgrades depending on customer demand and the expected resulting return.

Disclosure Controls and Internal Controls over Financial Reporting

As of December 31, 2018, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures as required by the Canadian Securities Administrators ("CSA"). This evaluation was performed under the supervision of, and with the participation of the President and Chief Executive Officer ("CEO") and the Vice President, Finance and Chief Financial Officer ("CFO").

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed with the securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure that this information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions on required disclosure. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective at December 31, 2018.

As of December 31, 2018, management evaluated the effectiveness of the Company's internal control over financial reporting as required by the CSA. This evaluation was performed utilizing the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"), as revised effective May 14, 2013 under the supervision of, and with the participation of the CEO and CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Based on this evaluation, the CEO and CFO have concluded that the Company's internal control over financial reporting was effective at December 31, 2018.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on October 1, 2018 and ended December 31, 2018 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. There was also no change in the Company's internal control over financial reporting that has occurred since December 31, 2018.

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

Total Revenue and Total Operating and Maintenance Expenses in Canada

Revenue and operating and maintenance expenses in AKITA's Canadian operating segment include revenue and expenses from AKITA's wholly-owned drilling rigs as well as its share of joint venture revenue and expenses.

$Thousands	2018	2017
Revenue from wholly-owned drilling rigs in Canada	**64,993**	71,198
Revenue from joint venture drilling rigs	**22,797**	26,513
Total revenue in Canada	**87,790**	97,711
Operating and maintenance expenses from wholly-owned drilling rigs in Canada	**48,547**	62,156
Operating and maintenance expenses from joint venture drilling rigs	**16,300**	19,167
Total operating and maintenance expenses in Canada	**64,847**	81,323

Per Operating Day

AKITA's revenue per operating day and AKITA's operating and maintenance expenses per operating day are not recognized GAAP measures under IFRS. Management and certain investors may find "per operating day" measures for AKITA's revenue indicate pricing strength while AKITA's 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.

Adjusted EBITDA

Adjusted earnings before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA") is not a recognized GAAP measure under IFRS and users of these financial statements should note that Adjusted EBITDA calculations may differ between AKITA and other companies. AKITA calculated Adjusted EBITDA as follows:

$Thousands	2018	2017
Net loss attributable to shareholders	**(15,939)**	(39,177)
Interest expense	**2,121**	168
Income tax expense (recovery)	**3,651**	(14,053)
Depreciation and amortization	**26,614**	27,126
Asset impairment and asset write down	**-**	29,123
Adjusted EBITDA	**16,447**	3,187

Adjusted Funds Flow from Operations

Adjusted funds flow from operations is not a recognized GAAP measure under IFRS and users of these financial statements should note that AKITA's method of determining adjusted 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 adjusted 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.

$Thousands	2018	2017
Net cash from (used in) operating activities	(8,494)	5,074
Income tax recoverable	(2,812)	(2,270)
Current income tax expense (recovery)	(143)	2,990
Interest paid	1,950	1
Post-employment benefits paid	90	142
Equity income from joint ventures	6,168	6,939
Change in non-cash working capital	17,547	(6,269)
Adjusted funds flow from operations	14,306	6,607

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 industry and risk management discussions.

By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and therefore carry 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; global liquified natural gas (LNG) demand; weather; access to capital markets; and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, 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 where required by law, the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by it or on its behalf.

Upcoming Accounting Standard Changes

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.

On initial adoption, Management anticipates they will elect to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

IFRS 16 is mandatory for the first interim periods within annual reporting periods beginning on or after January 1, 2019. The company is still assessing the standard and anticipates IFRS 16 to have a material effect on the financial statements once adopted.

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.

Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 5, 2019. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2018 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 1000, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 or at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to AKITA contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and are in conformity with International Financial Reporting Standards (also referred to as "IFRS") using methods appropriate for the industry in which the Company operates. Where necessary, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements including estimates related to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined benefit pension liability, assumptions around future income tax calculations, the fair value of the purchase price allocation related to the business combination, the estimated credit losses and the measurement of asset impairments. Financial information throughout this Annual Report is consistent with the consolidated financial statements except as noted.

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. This system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, Internal Control – Integrated Framework, as revised effective May 14, 2013. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in Canada. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated financial statements and have had full access to the Audit Committee.

The Board of Directors, through its Audit Committee comprised of four independent directors as defined in National Instrument 52-110 – Audit Committees ("NI 52-110"), and one director who is exempt from the independence requirements of NI 52-110, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

Karl A. Ruud
President and Chief
Executive Officer

Darcy Reynolds
Vice President, Finance
and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AKITA Drilling Ltd.

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AKITA Drilling Ltd. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have Audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Reynold Tetzlaff.

PricewaterhouseCoopers LLP

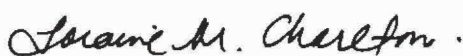
Chartered Professional Accountants
Calgary, Alberta
March 5, 2019

Consolidated Statements of Financial Position

$Thousands		December 31, 2018	December 31, 2017
ASSETS			
Current Assets			
Cash		$ 1, 503	$ 560
Accounts receivable	Note 12	42,733	27,024
Income taxes recoverable		531	3,076
Inventory		394	-
Prepaid expenses and other		2,446	89
		47,607	30,749
Non-current Assets			
Restricted cash	Note 11	756	1,525
Other long-term assets		474	528
Investments in joint ventures	Note 10	4,456	4,096
Property, plant and equipment	Note 9	350,348	170,599
TOTAL ASSETS		$ 403,641	$ 207,497
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	Note 12	$ 23,317	$ 13,696
Deferred revenue		367	-
Dividends payable	Note 16	3,367	1,525
Finance leases		559	-
Current portion of long-term debt	Note 14	8,831	-
		36,441	15,221
Non-current Liabilities			
Financial instruments	Note 12	-	9
Deferred income taxes	Note 7	16,235	12,592
Deferred share units	Note 18	417	388
Pension liability	Note 19	4,712	4,832
Long-term debt	Note 14	74,108	-
Total Liabilities		131,913	33,042
SHAREHOLDERS' EQUITY			
Class A and Class B shares	Note 17	146,264	23,871
Contributed surplus		4,701	4,500
Accumulated other comprehensive income (loss)		86	(495)
Retained earnings		120,677	146,579
Total Equity		271,728	174,455
TOTAL LIABILITIES AND EQUITY		$ 403,641	$ 207,497

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

Approved by the Board,



Director

Director

Consolidated Statements of Net Loss & Comprehensive Loss

$Thousands, except per share amounts		Year Ended December 31 2018	2017
REVENUE	Note 5	$ 118,361	$ 71,198
COSTS AND EXPENSES			
Operating and maintenance	Note 6	86,575	62,156
Depreciation and amortization	Note 9	26,614	27,126
Asset writedown and impairment loss	Note 9	-	29,123
Selling and administrative	Note 6	22,611	13,659
Total Costs and Expenses		135,800	132,064
Revenue Less Costs and Expenses		(17,439)	(60,866)
EQUITY INCOME FROM JOINT VENTURES	Note 10	6,168	6,939
OTHER INCOME (LOSS)			
Interest income		84	439
Interest expense		(2,121)	(168)
Gain on sale of assets		567	194
Net other gains		453	232
Total Other Income (Loss)		(1,017)	697
Loss Before Income Taxes		(12,288)	(53,230)
Income tax expense (recovery)	Note 7	3,651	(14,053)
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(15,939)	(39,177)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not subsequently be reclassified to profit or loss			
Remeasurement of pension liability and other		364	(129)
Items that may be subsequently be reclassified to profit or loss			
Foreign currency translation adjustment		217	-
Total Other Comprehensive Income (Loss)		581	(129)
COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ (15,358)	$ (39,306)
NET LOSS PER CLASS A AND CLASS B SHARE	Note 4		
Basic		$ (0.65)	$ (2.18)
Diluted		$ (0.65)	$ (2.18)

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

Consolidated Statements of Changes in Shareholders' Equity

$Thousands		Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Gain (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 year		–	–	–	–	–	(39,177)	(39,177)
Remeasurement of pension liability		–	–	–	–	(129)	–	(129)
Stock options charged to expense		–	–	–	215	–	–	215
Dividends		–	–	–	–	–	(6,100)	(6,100)
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		–	–	–	–	–	(179)	(179)
Net loss for the year		–	–	–	–	–	(15,939)	(15,939)
Foreign currency translation adjustment		–	–	–	–	217	–	217
Remeasurement of pension liability		–	–	–	–	364	–	364
Shares issued for acquisition	Note 3	122,393	–	122,393	–	–	–	122,393
Stock options charged to expense		–	–	–	201	–	–	201
Dividends		–	–	–	–	–	(9,784)	(9,784)
BALANCE AT DECEMBER 31, 2018		$ 144,898	$ 1,366	$ 146,264	$ 4,701	$ 86	$ 120,677	$ 271,728

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

Consolidated Statements of Cash Flows

$Thousands		Year Ended December 31 2018	2017
OPERATING ACTIVITIES			
Net loss		$ (15,939)	$ (39,177)
Non-cash items included in net loss:			
Depreciation and amortization	Note 9	26,614	27,126
Asset writedown and impairment loss		-	29,123
Deferred income tax expense (recovery)	Note 7	3,508	(11,063)
Defined benefit pension plan expense	Note 19	469	443
Stock options and deferred share units expense	Note 18	230	381
Gain on sale of assets		(567)	(194)
Unrealized gain on financial guarantee contracts		(9)	(32)
Change in non-cash working capital	Note 13	(17,547)	6,269
Equity income from joint ventures	Note 10	(6,168)	(6,939)
Post-employment benefits		(90)	(142)
Interest paid		(1,950)	(1)
Current income tax expense (recovery)	Note 7	143	(2,990)
Income taxes recoverable		2,812	2,270
Net Cash From (Used In) Operating Activities		(8,494)	5,074
INVESTING ACTIVITIES			
Net cash consideration for Xtreme shares	Note 3	(43,928)	-
Capital expenditures	Note 9	(17,546)	(20,569)
Change in non-cash working capital related to capital	Note 13	2,615	190
Distributions from investments in joint ventures	Note 10	5,808	6,095
Change in restricted cash		1,525	1,444
Proceeds on sale of assets		640	221
Net Cash Used In Investing Activities		(50,886)	(12,619)
FINANCING ACTIVITIES			
Change in debt	Note 14	68,884	-
Dividends paid	Note 16	(7,942)	(6,100)
Loan commitment fee		(836)	(45)
Net Cash From (Used In) Financing Activities		60,106	(6,145)
Effect of Foreign Exchange on Cash		217	-
Increase (Decrease) In Cash		943	(13,690)
Cash, beginning of year		560	14,250
CASH, END OF YEAR		$ 1,503	$ 560

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and December 31, 2017

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 40 drilling rigs (38.65 net of joint venture ownership).

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 consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared under the historical cost convention, except as specifically noted within these notes.

These consolidated financial statements were approved by the Company's Board of Directors on March 5, 2019.

Consolidation

The financial statements of the Company consolidate the accounts of AKITA and its subsidiaries which are entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases. Inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and its Canadian subsidiaries is the Canadian dollar ("CAD") while the functional currency of its United States subsidiaries is the United States dollar ("USD").

The consolidated financial statements are presented in CAD, which is the Company's presentation currency.

Foreign currency translation

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognized in the statement of net income and comprehensive income.

(ii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statement of net income and comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

Estimates and judgments

The preparation of these consolidated 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 consolidated financial statements are found in the following notes:

- Note 3 – Business Combination
- Note 7 - Income Taxes
- Note 9 - Property, Plant and Equipment
- Note 12 – Financial Instruments
- Note 19 – Employee Future Benefits

3. Business Combination

Effective September 11, 2018, AKITA and Xtreme Drilling Corp. ("Xtreme") combined their respective businesses under a plan of arrangement (the "Arrangement"), pursuant to which AKITA acquired all of the issued and outstanding common shares of Xtreme (the "Xtreme Shares"). Pursuant to the Arrangement, AKITA issued 21,662,530 Class A Non-Voting shares of AKITA and $45,000,000 in cash in consideration for the Xtreme Shares. Under the Arrangement, Xtreme shareholders received 0.3732394 of a Class A Non-Voting share of AKITA or $2.65 in cash for each Xtreme Share. The cash consideration was financed from AKITA's cash balances and a new credit facility of $125,000,000 which was entered into by AKITA concurrently with the completion of the Arrangement.

Xtreme was a drilling company that operated land-based contract drilling rigs in the United States ("US"). The Arrangement increased AKITA's US-based rigs from four rigs to 17 rigs.

The following summarizes the major classes of consideration transferred at the Arrangement date:

$Thousands		September 11, 2018
Cash paid	$	45,000
Shares issued		122,393
Total consideration	**$**	**167,393**

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the Arrangement date.

$Thousands		September 11, 2018
Cash	$	1,072
Accounts receivable		18,668
Income tax recoverable		410
Inventory		980
Prepaid expenses		853
Restricted cash		756
Assets held for sale		1,971
Drilling rigs		175,756
Property and equipment		10,479
Land and building		2,546
Accounts payable and accrued liabilities		(30,683)
Current portion of long-term debt		(4,475)
Long-term debt		(10,940)
Total consideration	**$**	**167,393**

The purchase price allocation is based on Management's best estimate of fair value and has been retrospectively adjusted to reflect new information obtained between September 11, 2018 and December 31, 2018 about conditions that existed at the acquisition date.

As part of the Arrangement, AKITA assumed an asset held for sale valued at $1,971,000 ($1,500,000 USD). In October 2018, the Company sold this asset for its fair value.

At September 11, 2018, Xtreme had an unrecognized deferred tax asset. AKITA did not recognize this deferred tax asset in the purchase price allocation as management felt that the recoverability of this asset is uncertain.

The Arrangement has been accounted for using the acquisition method, whereby the assets acquired and the liabilities assumed were recorded at their fair values. The Company assessed the fair values of the net assets acquired based on management's best estimate of the market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets, as well as the amount that is expected to settle the outstanding liabilities. Subsequent to the Arrangement date, Xtreme's operating results have been included in the Company's revenues, expenses and capital spending.

From the date of the Arrangement on September 11, 2018, Xtreme contributed an estimated $35.3 million of revenue and $3.1 million of net income before taxes for the Company. If the business combination had been completed on January 1, 2018, Xtreme's estimated additional contribution to the revenue and net loss before income tax for the year ended December 31, 2018, would have been $65.0 million and $14.0 million, respectively.

The Company incurred costs related to the Arrangement for the year ended December 31, 2018 of $2.4 million. These costs mainly relate to due diligence and external legal fees. These costs have been included in the selling and administrative expenses on the consolidated statements of net loss.

RESULTS FOR THE YEAR

4. Net Loss per Share

Basic earnings per share is calculated by dividing the net income for the period attributable to shareholders of the Company by the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of Class A Non-Voting and Class B Common shares outstanding to assume conversion of all dilutive potential Class A Non-Voting shares, typically stock options granted to directors and employees. The calculation is performed for the stock options to determine the number of shares that could have been acquired at fair value (determined as the average quarterly or annual, as appropriate, market share price of the Company's outstanding Class A Non-Voting shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of stock options.

	Year Ended	
	December 31 2018	December 31 2017
Net loss ($Thousands)	$ (15,939)	$ (39,177)
Weighted average outstanding shares	24,551,542	17,945,661
Incremental shares for diluted earnings [1]	—	—
Weighted average outstanding shares for earnings per share - diluted	24,551,542	17,945,661
Loss per share - basic	$ (0.65)	$ (2.18)
Loss per share - diluted	$ (0.65)	$ (2.18)

[1] For the year ended December 31, 2018, 1,053,500 of the outstanding shares (2017 – 779,500) that would have been issued under the Stock Option Plan were excluded in calculating the weighted average number of diluted shares as the Company incurred a net loss during the year and therefore the shares were considered anti-dilutive.

5. 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.

The Company's 2017 revenue policy is that revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Contract revenue resulting from daywork contracts is recorded based upon the passage of time. The receipt of unearned contract revenue is recorded as deferred revenue until the contracted passage of time has occurred. There are no substantial differences between the accounting policies adopted under IFRS 15 and the revenue accounting polices previously adopted by the Company. There are no adjustments to amounts recognized in the 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.

Significant Estimates and Judgments – Relative Stand-Alone Selling Price

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

$Thousands	Year Ended December 31 2018	December 31 2017
Contract drilling services	$ 59,806	$ 34,454
Rig lease rental	58,555	36,744
Total Revenue	**$ 118,361**	$ 71,198

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.

Significant Customers

During 2018, three customers (2017 – two customers) each provided more than 10% of the Company's revenue. While the loss of one or more of these customers may have a material adverse effect on the financial results of the Company, in management's assessment, the future viability of the Company is not dependent upon these major customers.

6. Expenses by Nature

The Company presents certain expenses in the consolidated Statements of Net Loss and Comprehensive Loss by function. The following table presents those expenses by their nature:

$Thousands	Year Ended December 31 2018	December 31 2017
Expenses		
Salaries, wages and benefits	$ 69,534	$ 48,983
Materials and supplies	6,668	7,408
Repairs and maintenance	20,969	13,377
External services and facilities	12,015	6,047
Total Expenses	**$ 109,186**	$ 75,815
Allocated to:		
Operating and maintenance	$ 86,575	$ 62,156
Selling and administrative	22,611	13,659
Total Expenses	**$ 109,186**	$ 75,815

7. Income Taxes

Income taxes are comprised of current and deferred income taxes.

Current taxes are calculated using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are measured using tax rates that are enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset is realized or the liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Income taxes are comprised of the following:

	Year Ended	
$Thousands	**December 31 2018**	December 31 2017
Current tax expense (recovery)	**$ 143**	$ (2,990)
Deferred tax expense (recovery)	**3,508**	(11,063)
Total income tax expense (recovery)	**$ 3,651**	$ (14,053)

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 27.00% (2017 – 26.83%) to the reported tax expense (recovery). The rate increase is due to more of the Company's revenue being earned in higher tax rate jurisdictions. 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.

	Year Ended	
$Thousands	**December 31 2018**	December 31 2017
Loss before income taxes	**$ (12,288)**	$ (53,230)
Expected income tax recovery at the statutory rate	**$ (3,301)**	$ (14,281)
Add (deduct):		
Change in income tax rates	**94**	(97)
Permanent differences	**(123)**	107
Jurisdictional rate difference	**1,089**	(20)
Rate difference on loss carryback	**-**	168
Change in unrecognized deferred tax asset	**6,164**	71
Return to provision adjustment	**(342)**	132
Other	**70**	(133)
Total income tax expense (recovery)	**$ 3,651**	**$ (14,053)**

The deferred tax balance consists of the following:

$Thousands	Property, Plant and Equipment	Defined Benefit Pension Plan Benefits	Non-capital Losses	Other	Total
Balance as at December 31, 2016	$ 24,386	$ (1,183)	$ -	$ 499	$ 23,702
Credited to the statement of net loss	(10,848)	(89)	-	(126)	(11,063)
Credited to other comprehensive loss	-	(47)	-	-	(47)
Balance as at December 31, 2017	13,538	(1,319)	-	373	12,592
Charged (credited) to net loss	**9,781**	**22**	**(6,150)**	**(145)**	**3,508**
Credited to other comprehensive income	**-**	**135**	**-**	**-**	**135**
Balance as at December 31, 2018	**$ 23,319**	**$ (1,162)**	**$ (6,150)**	**$ 228**	**$ 16,235**

A net deferred tax asset has not been recognized for $53 million (2017 – Nil), this amount is primarily non-capital losses carried forward.

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.

8. Segmented Information

The Company operates one operating segment, providing 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 determines its operating segments based on internal information regularly reviewed by management to allocate resources and assess performance.

During 2018 the Company commenced operations in the US. During the third quarter of 2018, the shareholders of Xtreme and AKITA approved the Arrangement to combine their respective businesses (Note 3 – Business Combination). The Arrangement increased AKITA's US operations from four rigs to 17 rigs. Geographical information is provided for the Company's operating segments below:

	Year Ended December 31, 2018			Year Ended December 31, 2017		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Revenue	**$ 64,993**	**$ 53,368**	**$ 118,361**	$ 71,198	$ -	$ 71,198
Revenue less costs and expenses	**$ (18,399)**	**$ 960**	**$ (17,439)**	$ (60,866)	$ -	$ (60,866)

	December 31, 2018			December 31, 2017		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Property, plant and equipment	**$ 116,630**	**$ 233,718**	**$ 350,348**	$ 170,599	$ -	$ 170,599

LONG-TERM ASSETS

9. Property, Plant and Equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and impairment.

Cost includes expenditures directly attributable to the acquisition of the item. The cost of assets constructed by the Company includes the cost of all materials and services used in the construction and direct labour on the project. Costs cease to be capitalized as soon as the asset is ready for productive use. Subsequent costs associated with equipment upgrades that result in increased capabilities or performance enhancements of property, plant and equipment are capitalized. Costs incurred to repair or maintain property, plant and equipment are charged to expense as incurred. The carrying amount of a replaced asset is derecognized when replaced.

Significant Estimates and Judgments - Useful Lives of Drilling Rigs

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 financial statements for the year ended December 31, 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 December 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 to 5 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

The salvage values for the drilling rig equipment ranges from zero to 10% depending on the specific rig component. There is no salvage values for the remaining equipment classes.

Property, Plant and Equipment Continuity

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2016	$ 4,302	$ 405,935	$ 7,964	$ 418,201
Additions	-	20,307	262	20,569
Disposals	-	(20,817)	(129)	(20,946)
Asset writedowns and impairment loss	-	(37,908)	-	(37,908)
Balance as at December 31, 2017	4,302	367,517	8,097	379,916
Additions	**2,601**	**14,376**	**569**	**17,546**
Xtreme additions	**2,546**	**184,126**	**2,109**	**188,781**
Disposals	**-**	**(7,622)**	**(567)**	**(8,189)**
Balance as at December 31, 2018	**$ 9,449**	**$ 558,397**	**$ 10,208**	**$ 578,054**

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	-	(20,799)	(119)	(20,918)
Depreciation expense	73	25,971	667	26,711
Asset writedowns and impairment loss	-	(8,785)	-	(8,785)
Balance as at December 31, 2017	1,424	200,573	7,320	209,317
Disposals	**-**	**(7,555)**	**(560)**	**(8,115)**
Depreciation expense	**123**	**25,627**	**754**	**26,504**
Balance as at December 31, 2018	**$ 1,547**	**$ 218,645**	**$ 7,514**	**$ 227,706**

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 December 31, 2017	$ 2,878	$ 166,944	$ 777	$ 170,599
As at December 31, 2018	**$ 7,902**	**$ 339,752**	**$ 2,694**	**$ 350,348**

At December 31, 2018, the Company had $286,000 in Property, Plant and Equipment that was not being depreciated, as these assets were under construction (December 31, 2017 – $16,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $110,000 for the year ended December 31, 2018 (2017 - $415,000).

Impairment of Assets

International Accounting Standard 36, “Impairment of Assets”, requires an entity to consider both internal and external factors when assessing whether there are indications of asset impairment at each reporting period. At December 31, 2018, there were no internal

indicators of asset impairment, however there were external indicators of asset impairment. The uncertainty around oil prices impacts the earnings potential of the Company's CGUs and at December 31, 2018 the book value of the Company's net assets was greater than its market capitalization; therefore, the Company tested its CGUs for asset impairment.

Upon completion of its asset impairment testing, the Company concluded that there was no asset impairment required at December 31, 2018 (2017 - $16,000,000). The Company also concluded that there were no reversals of previous asset impairments required at December 31, 2018.

The accuracy of asset impairment testing is affected by estimates and judgments in respect of the inputs and parameters that are used to determine recoverable amounts. In performing its asset impairment test at December 31, 2018, management determined value in use for each of its CGUs using estimated discounted cash flows, which included estimates of future cash flows, expectations regarding cash flow variability, a determination of the discount rate and consideration of the recoverable amount and salvage value of each CGU. At December 31, 2017, management determined recoverable amounts for its CGUs using a combination of value-in-use and fair value less costs to dispose. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value.

The assumptions used in the value-in-use impairment tests were based on the Company's Board approved 2019 budget and business plan covering a three year period and applied an average growth rate ranging from 2% to 9% over a 10 year period depending on the CGU being analyzed. In forecasting its projected cash flows the Company assumed that current market conditions will not persist into the future. The Company assumed a pre-tax discount rate of 13%, in order to calculate the present value of projected cash flows. Determination of this discount rate included an analysis of the cost of debt and equity for the Company and the Canadian drilling industry incorporating a risk premium based on current market conditions. This valuation has a fair value hierarchy of Level 3.

Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions will not be realized. As a result, the following sensitivity analysis has been performed to recognize that additional outcomes are possible:

- Reduced future revenue assumptions by 5%;
- Increased inflation for cash outflows to 5%; and
- Increased the pre-tax discount rate from 13% to 15%.

As rigs are long lived assets, no sensitivity adjustment was made for the projected forecast period.

The sensitivity tests resulted in reductions to the CGUs' values-in-use ranging from $9 million to $32 million. As the base case test represented management's best estimates, these sensitivity changes were not included in the recoverable amounts used in the 2018 asset impairment testing or the 2017 asset impairment loss reported.

10. Investments in Joint Ventures

The Company conducts certain rig operations via joint ventures with Aboriginal or First Nations partners whereby rig assets are jointly owned. Currently, there are seven different Aboriginal or First Nations groups with equity investments 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 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 accounting policies of the joint ventures are consistent with the policies described herein.

The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting whereby the Company's share of individual assets and liabilities are recognized as an investment in the joint venture account on the consolidated statements of financial position, and revenues and expenses are recognized with net earnings as a gain/loss from investment in the joint venture account on the consolidated statements of income and comprehensive income.

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 year ended December 31, 2017	6,939
Distributions for the year ended December 31, 2017	(6,095)
Balance as at December 31, 2017	4,096
Net income for the year ended December 31, 2018	**6,168**
Distributions for the year ended December 31, 2018	**(5,808)**
Balance as at December 31, 2018	**$ 4,456**

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.

$Thousands	December 31, 2018 AKITA %			JV Partner %		Total	December 31, 2017 AKITA %			JV Partner %		Total
Cash	$	1,334	$	261	$	1,595	$	1,027	$	217	$	1,244
Other current assets		4,704		1,148		5,852		5,622		1,193		6,815
Non-current assets		55		-		55		55		-		55
Total assets		6,093		1,409		7,502		6,704		1,410		8,114
Total liabilities		1,637		526		2,163		2,608		555		3,163
Net assets	$	4,456	$	883	$	5,339	$	4,096	$	855	$	4,951

$Thousands	Year Ended December 31, 2018 AKITA %			JV Partner %		Total	Year Ended December 31, 2017 AKITA %			JV Partner %		Total
Revenue	$	22,797	$	4,737	$	27,534	$	26,513	$	5,915	$	32,428
Net income and comprehensive income	$	6,168	$	1,246	$	7,414	$	6,939	$	1,331	$	8,270

11. Restricted Cash

Restricted cash is comprised of the following:

$Thousands	December 31, 2018		December 31, 2017	
Bank loan guarantee	$	—	$	1,525
Letter of credit security		756		—
Total restricted cash	$	756	$	1,525

As part of the Arrangement, AKITA assumed restricted cash held with a financial institution as security for two outstanding letters of credit. At December 31, 2018, the restricted cash balance was $756,000. The restrictions are in the process of being removed as the Company has met its obligations under the original terms of the restriction.

WORKING CAPITAL

12. 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.

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

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

A. Classification and measurement

From January 1, 2018, the Company classifies its financial instruments in the following measurement categories depending on the company'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 December 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 December 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 December 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 December 31, 2018, the Company held no financial instruments in this category.

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.

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 $nil at December 31, 2018 (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	December 31, 2018	December 31, 2017
Within 30 days	$ 30,793	$ 11,459
31 to 60 days	9,920	3,908
61 to 90 days	673	846
Over 90 days	1,615	220
Estimated credit losses	(268)	(50)
Total trade accounts receivable	42,733	16,383
Contract cancellation receivable	-	10,641
Total accounts receivable	$ 42,733	$ 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 be 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 December 31, 2018, this risk was limited by having a banking facility sufficient to meet all current liabilities.

Maturity information regarding the Company's long-term debt is as follows:

$Thousands	Less than 1 Year	1-4 Years	Total
Debt assumed from acquisition - principal	$ 4,004	$ 10,113	$ 14,117
Debt assumed from acquisition - interest	1,709	1,464	3,173
Bank credit facility - principal	4,827	63,995	68,822
Bank credit facility - interest	4,287	7,483	11,770
Total	$ 14,827	$ 83,055	$ 97,882

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 changes in interest rates on borrowings under its operating loan facility which is subject to floating interest rates.

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.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

$Thousands	December 31, 2018	December 31, 2017
Trade payables	$ 3,905	$ 3,511
Statutory liabilities	302	694
Accrued expenses	19,020	9,401
Post-employment benefits	90	90
Accounts payable and accrued liabilities	$ 23,317	$ 13,696

13. Change in Non-Cash Working Capital

	Year Ended	
$Thousands	December 31, 2018	December 31, 2017
Change in non-cash working capital:		
Accounts receivable	$ 2,780	$ 1,196
Inventory	586	-
Prepaid expenses and other	(1,504)	(15)
Accounts payable and accrued liabilities	(16,814)	5,278
Finance leases	20	-
Total change in non-cash working capital	$ (14,932)	$ 6,459
Pertaining to:		
Operating activities	$ (17,547)	$ 6,269
Investing activities	2,615	190
Total change in non-cash working capital	$ (14,932)	$ 6,459

DEBT AND EQUITY

14. Debt

As part of the Arrangement, AKITA assumed $9,694,000 ($7,376,000 USD) in debt held by Xtreme. The loan is payable in monthly installments of $295,000 ($228,000 USD) over 31 months, with a balloon payment due at the end of the term. The borrowing has an implied interest rate of approximately 11.7 percent. The effective annual rate agreement is approximately 12.9 percent. There are no debt covenants related to this debt agreement.

As part of the Arrangement, AKITA assumed $4,771,000 ($3,631,000 USD) in debt held by Xtreme. This loan is secured by one of the Company's new rigs. The loan is payable in monthly installments of $153,000 ($118,000 USD) over 30 months, with a balloon payment due at the end of the term. The borrowing has an implied interest rate of approximately 17.7 percent. There are no debt covenants related to this debt agreement.

Operating Loan Facility

The Company had an operating loan facility with its principal banker which concluded at the Arrangement date. The facility totaled $50,000,000 with an interest rate of 1.25% over prime interest rates or 2.50% over guaranteed notes, depending on the preference of the Company. Security for this facility included a General Security Agreement covering all current and future assets. For the period January 1, 2018 to September 11, 2018, the Company drew and repaid $13,900,000 from this operating loan facility.

The operating loan facility was replaced by a new credit agreement with the Company's principal banker. The new operating loan facility totals $125,000,000 with the term ending in 2022. The interest rate ranges from 50 to 200 basis points over prime interest rates depending on the Funded Debt to EBITDA[1] ratio. Security for this facility includes all present and after-acquired personal property and a first floating charge over all other present and after-acquired property including real property. The financial covenants are:

1) Funded Debt[1] to EBITDA[1] Ratio: the Company shall ensure that:

   (i) for the Fiscal Quarter ending December 31, 2018, the Funded Debt[1] to EBITDA[1] Ratio shall not be more than 4.00:1.00;

   (ii) for the Fiscal Quarter ending March 31, 2019, the Funded Debt[1] to EBITDA[1] Ratio shall not be more than 3.50:1.00; and

   (iii) for the Fiscal Quarter ending June 30, 2019 and each Fiscal Quarter ending thereafter, the Funded Debt[1] to EBITDA[1] Ratio shall not be more than 3.00:1.00.

   The Funded Debt[1] to EBITDA[1] Ratio shall be calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis; and

2) EBITDA[1] to Interest Expense Ratio: the Company shall not permit the EBITDA[1] to Interest Expense Ratio, calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis, to fall below 3.00:1.00.

   The facility also includes a borrowing base calculation as follows:
   The sum of:

   (i) 75% of Eligible Accounts Receivable[1]; plus

   (ii) 40% of the net book value of all Eligible Fixed Assets[1]; less

   (iii) Priority Payables[1] of the Loan Parties.

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

(1) Funded Debt, EBITDA, Eligible Accounts Receivable, Eligible Fixed Assets and Priority Payables are all defined terms in the Company's credit agreement.

The Company borrowed $74,991,000 from this facility as at December 31, 2018, to pay the cash consideration from the Arrangement and related costs.

$Thousands	December 31, 2018
Balance at December 31, 2017	$ -
Debt assumed	14,836
Drawn on credit facility	74,210
Repayment of debt	(6,107)
Total debt	**$ 82,939**

$Thousands	December 31, 2018
Current portion	$ 8,831
Long-term portion	74,108
Total debt at December 31, 2018	**$ 82,939**

15. Capital Management

The Company has determined capital to include long-term debt and share capital. The Company's objectives when managing capital are:

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

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

16. Dividends per Share

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the Company's Board of Directors approves the dividends.

The following table provides a history of dividends over the past two years:

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**
May, 2018	**July, 2018**	**$ 0.085**	**$ 1,525**
August, 2018	**October, 2018**	**$ 0.085**	**$ 3,367**
November, 2018	**January, 2019**	**$ 0.085**	**$ 3,367**

17. 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 December 31, 2018 and December 31, 2017 are:

(Number of Shares)	Class A Non-Voting	Class B Common	Total
Shares outstanding at December 31, 2017	16,291,877	1,653,784	17,945,661
Shares issued for Arrangement	21,662,530	-	21,662,530
Shares outstanding at December 31, 2018	**37,954,407**	**1,653,784**	**39,608,191**

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.

Incremental costs attributable to the issue of new shares or options are recorded as a reduction in equity, net of income taxes.

Shares repurchased by the Company are recorded as a reduction of shareholders' equity based upon the consideration paid, including any directly incremental costs, net of income taxes. All shares repurchased by the Company are cancelled upon repurchase.

The Company did not establish a normal course issuer bid in 2018 or 2017.

PERSONNEL

18. Share-Based Compensation Plans

The Company has three share-based compensation plans. Stock options qualify as an equity-settled share-based payment plan while deferred share units ("DSUs") and share appreciation rights ("SARs") qualify as cash-settled share-based payment plans. For all three of the share-based compensation plans, associated services received are measured at fair value and are calculated by multiplying the number of options, DSUs or SARs expected to vest with the fair value of one option, DSU or SAR as of the grant date.

Stock Options

Subject to the approval of the Company's Board of Directors, the Company's Corporate Governance, Nomination, Compensation and Succession Committee may designate directors, officers, employees and other persons providing services to the Company to be granted options to purchase Class A Non-Voting shares.

The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of the grant. Each tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using either the Binomial or the Black Scholes option pricing model. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

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

(Number of options)	December 31, 2018	December 31, 2017
Reserved under the current stock option plan [(1)]	3,100,000	3,100,000
Balance at beginning of year	822,000	818,500
Expired during the year	-	101,000
Granted during the year	(177,500)	(97,500)
Available for future issuance	644,500	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 Company's stock options 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	$ 10.45	879,500	$ 10.83
Granted	177,500	$ 5.62	97,500	$ 8.26
Expired	—	—	(101,000)	$ 11.67
Options outstanding at December 31	1,053,500	$ 9.63	876,000	$ 10.45
Options exercisable at December 31	756,000	$ 10.74	620,500	$ 11.16

The following table summarizes outstanding stock options at December 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	1.2	130,000	130,000	2.2	130,000
5	$10.32	76,000	2.2	76,000	76,000	3.2	76,000
5	$10.86	82,500	3.2	82,500	82,500	4.2	82,500
5	$13.81	87,500	4.7	87,500	87,500	5.7	87,500
5	$16.02	115,000	5.7	115,000	115,000	6.7	92,000
5	$10.28	90,000	6.2	72,000	90,000	7.2	54,000
5	$ 7.13	197,500	7.3	118,500	197,500	8.3	79,500
5	$ 8.26	97,500	8.3	39,000	97,500	9.3	19,500
5	$ 5.62	177,500	9.7	35,500			
Weighted Average Contractual Life			5.9			6.1	

Deferred Share Units

The Company has a cash-settled share-based long-term incentive compensation plan for certain employees. Each DSU granted equates to one Class A Non-Voting share and entitles the holder to receive a cash payment equal to the Company's share price on the payment date. DSU holders are entitled to share in dividends which are credited as additional DSUs at each dividend payment date. DSUs vest immediately but are not exercisable until resignation or retirement from management and/or the Board of Directors.

Units issued under the Company's DSU plan are measured at fair value using the intrinsic value method when granted and subsequently re-measured at each reporting date using the Company's Class A Non-Voting share price at the reporting date with the associated expense recognized in general and administrative expense. The Company assumes a zero forfeiture rate.

A summary of the Company's deferred share unit plan 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
Granted during the year	**46,117**	**238**	24,705	210
Redeemed during the year	**-**	**-**	(6,134)	(52)
Issued in lieu of dividends	**3,521**	**22**	1,759	13
Change in fair value	**-**	**(231)**	-	(57)
Deferred share units outstanding at December 31	**102,370**	**$417**	52,732	$388

Share Appreciation Rights

SARs may be granted to directors, officers and key employees of the Company. The vesting provisions (which range from three to eight years) and exercise period (which cannot exceed 10 years) are determined at the time of grant. The holder is entitled on exercise to receive a cash payment from the Company equal to any increase in the market price of the Class A Non-Voting shares over the base value of the SAR exercised. The base value is equal to the closing price of the Class A Non-Voting shares on the day before the grant.

Share-Based Compensation Expense

The fair value of the services received is recognized as selling and administrative expense. In the case of equity-settled share-based payment plans, the selling and administrative expense results in a corresponding increase in contributed surplus over the vesting period of the respective plan. When stock options are exercised, shares are issued and the amount of the proceeds, together with the amount recorded in contributed surplus, is recognized in share capital. For cash-settled share-based payment plans, a corresponding liability is recognized. The fair value of the cash-settled share-based payment plans is remeasured at each Statement of Financial Position date through the Statement of Net Income and Comprehensive Income until settlement.

Share-based compensation expense consists of the following:

	Year Ended	
$Thousands	**December 31, 2018**	December 31, 2017
Stock option expense	**$ 201**	$ 215
Deferred share unit expense	**29**	166
Total share-based compensation expense	**$ 230**	$ 381

The stock option expense was determined using the Binomial Model based on the following assumptions. Expected volatility is calculated by examining a historical 60 month (5 year) trading history up to the grant date, where significant outliers are excluded to provide a better estimate.

	2018	2017
Risk-free interest rate	2.30%	1.10%
Expected volatility	35.00%	32.00%
Dividends yield rate	5.40%	4.20%
Option life	5.4 years	5.4 years
Weighted average share price	$ 5.62	$ 8.26
Forfeiture rate	0.00%	0.00%
Fair value of options	$ 1.29	$ 1.78

19. Employee Future Benefits

The Company has a defined contribution pension plan, registered under the Alberta Employment Pension Plans Act, that covers substantially all of its Canadian employees. Under the provisions of the plan, the Company contributes 5% of regular earnings for eligible employees on a current basis. In addition, employees having eligible terms of service are subject to admission into the Company's group RRSP. The Company makes contributions on behalf of these plans to a separate entity and has no legal or constructive obligations to pay further contributions if the plans do not hold sufficient assets to pay the employee benefits relating to employee service in current or prior periods.

Contributions to the Company's defined contribution pension plan and the group RRSP are recognized as employee benefit expense when they are due.

The Company has also established an unregistered defined benefit pension plan for certain current and retired employees. The defined benefit plan, which provides for pensions based upon the age of the retiree at the date of retirement, is non-contributory and unfunded. The Company obtains an actuarial valuation from an independent actuary subsequent to each year-end or if circumstances change. The most recent evaluation was dated January 14, 2019, and was utilized in measuring the December 31, 2018 balances.

The defined benefit pension plan liability is the present value of the defined benefit obligation at the Statement of Financial Position date. The cost of the defined benefit plan is determined using the projected unit credit method. The defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality Canadian denominated corporate bonds that have terms to maturity approximating the terms of the related pension liability. Past service costs are recognized in net income when incurred. Post-employment benefits expense is comprised of the interest on the net defined benefit liability, calculated using a discount rate based on market yields on high quality bonds, and the current service cost. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income.

$Thousands	2018	2017
Actuarial present value of defined benefit obligation at January 1	$ 4,922	$ 4,393
Interest cost	171	166
Current service cost	298	277
Benefits paid	(90)	(90)
Unrealized actuarial (gain) loss	(499)	176
Actuarial present value of defined benefit obligation at December 31	$ 4,802	$ 4,922

$Thousands	2018	2017
Pension liability allocated to:		
Accounts payable and accrued liabilities	$ 90	$ 90
Non-current liabilities	4,712	4,832
Penison liability outstanding at December 31	$ 4,802	$ 4,922

Key Assumptions

	Year Ended	
$Thousands	December 31, 2018	December 31, 2017
Discount rate at beginning of the year	3.3%	3.6%
Anticipated retirement age of plan members	61 to 65 years	61 to 65 years

The Company's pension expense is recorded in selling and administrative expenses and interest expense and is comprised of the following:

	Year Ended	
$Thousands	December 31, 2018	December 31, 2017
Defined benefit pension plan		
Interest cost	$ 171	$ 166
Service cost	298	277
Expense for defined benefit plan	469	443
Expense for defined contribution plan	2,477	2,233
Total pension expense	$ 2,946	$ 2,676

Significant Estimates and Judgments – Defined Benefit Pension Liability

Significant estimates used in the preparation of AKITA's financial statements relate to the measurement of the non-current defined benefit pension liability for selected current and retired employees that was recorded as $4,712,000 at December 31, 2018 (December 31, 2017 - $4,832,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's defined

benefit pension expense and liability. At December 31, 2018, a key assumption is the discount rate of 3.6% (2017 – 3.3%). From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $664,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a $550,000 decrease in the defined benefit obligation. Additionally, if members' lives should be one year longer than actuarial expectations, the defined benefit obligation would increase by $88,000. 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.

OTHER NOTES

20. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2018, the Company had twelve drilling rigs with multi-year contracts. Of these contracts, nine are due to expire in 2019 and three in 2020.

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 is committed to operating leases for office and field facilities and finance leases for right-to-use assets. The table below details approximate annual base rental and finance lease payments.

$Thousands	December 31, 2018	December 31, 2017
Less than 1 year	$ 1,859	$ 810
Between 1 and 5 years	2,222	-
	$ 4,081	$ 810

As part of the Arrangement the Company assumed two equipment leases which are classified as finance leases. The leases have stated interest rates of 5.55 percent and 5.71 percent and include bargain purchase options of $74,000 and $65,000 at the end of the lease periods in December 2021.

At December 31, 2018, the Company had capital expenditure commitments of $3,302,000 due in 2019 (2017 – $2,532,000 due in 2018).

21. Related Party Transactions

All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the amounts agreed upon with the related parties.

a) ATCO Group and Spruce Meadows

The Company is related to the ATCO Group of companies and to Spruce Meadows through its controlling shareholder (see Note 1). The transactions and period end balances with those affiliates are presented below:

$Thousands	Year Ended	
	December 31, 2018	December 31, 2017
Revenue (computer services, rent)	**$ 84**	$ 84
Purchases		
Operating (sponsorship and advertising (Note 21, other))	**$ 353**	$ 341
Selling and administrative	**$ 57**	$ 53
Year-end accounts payable	**$ 4**	$ 1

b) Joint ventures and joint venture partners

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

$Thousands	Year Ended	
	December 31, 2018	December 31, 2017
Revenue	**$ -**	$ 6
Operating costs	**$ 3,288**	$ 4,736
Selling and administrative costs	**$ 448**	$ 531
Year-end accounts payable	**$ 1,299**	$ 1,044

c) Legal fees

The Company incurred legal fees of $368,000 (2017 - $107,000) during the year for services related to various legal matters with a law firm of which a director of the Company was a partner at December 31, 2018. At December 31, 2018, $5,000 (December 31, 2017 - $22,000) of this amount was included in accounts payable.

d) Key management compensation

Key management includes the officers and directors of the Company. The compensation paid or payable to key management for services in the capacity as either officers or directors is shown below:

$Thousands	Year Ended	
	December 31, 2018	December 31, 2017
Salaries, director's fees and other short-term benefits	**$ 2,033**	$ 1,784
Post-employment benefits	**$ 415**	$ 550
Share-based payments	**$ 613**	$ 531
Year-end compensation payable	**$ -**	$ 240

22. 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.

On initial adoption, Management anticipates they will elect to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

IFRS 16 is mandatory for the first interim periods within annual reporting periods beginning on or after January 1, 2019. The company is still assessing the standard and anticipates IFRS 16 to have a material effect on the financial statements once adopted.

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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10 YEAR FINANCIAL REVIEW

$Thousands (except per share)	Annual Ranking	2018	2017	2016
Summary of Operations				
Revenue	6	$ 118,361	$ 71,198	$ 61,061
Income (loss) before income taxes	8	$ (12,228)	$ (53,230)	$ 7,535
Income taxes expense (recovery)	5	$ 3,651	$ (14,053)	$ 2,206
Net income (loss)	8	$ (15,939)	$ (39,177)	$ 5,329
As a percentage of average shareholders' equity	8	(5.9%)	(22.5%)	2.4%
Earnings (loss) per Class A and Class B share (basic)	8	$ (0.65)	$ 2.18	$ 0.30
Funds flow from operations	9	$ 14,306	$ 6,607	$ 34,500
As a percentage of average shareholders' equity	9	5.3%	3.8%	15.7%
Financial Position at Year End				
Working capital (deficiency)	9	$ 11,166	$ 15,528	$ 34,907
Current ratio	1	1.31:01	2.02:1	4.49:1
Total assets	1	$ 403,641	$ 207,497	$ 257,907
Shareholders' equity	1	$ 271,728	$ 174,455	$ 219,646
per share	10	$ 6.86	$ 9.72	$ 12.24
Other				
Capital expenditures (net)	8	$ 17,546	$ 20,348	$ 13,193
Depreciation and amortization	5	$ 26,614	$ 27,126	$ 23,959
Dividends paid	1	$ 7,942	$ 6,100	$ 6,100
per share	1	$ 0.34	$ 0.34	$ 0.34

Note: Financial information has been calculated under Canadian GAAP for the year 2009 and under IFRS for the years 2010 through 2018. Readers should be aware that these two sets of accounting standards are not consistent with each other. Revenue amounts reported for 2012 through 2018 include revenue solely generated by the Company from its wholly-owned operations.

	2015	2014	2013	2012	2011	2010	2009
	$ 112,488	$ 165,274	$ 168,111	$ 203,440	$ 199,934	$ 145,138	$ 106,263
	$ (44,544)	$ 28,121	$ 35,682	$ 38,413	$ 31,762	$ 10,932	$ 11,901
	$ (10,579)	$ 7,042	$ 9,167	$ 9,658	$ 8,409	$ 3,462	$ 3,521
	$ (33,965)	$ 21,079	$ 26,515	$ 28,755	$ 23,353	$ 7,470	$ 8,380
	(14.2%)	8.3%	11.3%	13.5%	12.1%	4.1%	4.2%
	$ (1.89)	$ 1.17	$ 1.48	$ 1.60	$ 1.29	$ 0.41	$ 0.46
	$ 38,510	$ 56,195	$ 57,619	$ 59,474	$ 42,895	$ 32,798	$ 23,960
	16.0%	22.2%	24.6%	28.0%	22.3%	17.9%	12.0%

	2015	2014	2013	2012	2011	2010	2009
	$ 16,002	$ (5,028)	$ 40,645	$ 31,214	$ 44,265	$ 61,341	$ 69,819
	2.45:1	0.90:1	2.93:1	1.70:1	2.37:1	4.04:1	7.02:1
	$ 254,516	$ 340,926	$ 291,748	$ 292,994	$ 247,130	$ 218,587	$ 234,215
	$ 220,200	$ 259,841	$ 245,288	$ 223,998	$ 201,104	$ 183,739	$ 201,446
	$ 12.27	$ 14.48	$ 13.65	$ 12.49	$ 11.15	$ 10.19	$ 11.05

	2015	2014	2013	2012	2011	2010	2009
	$ 17,960	$ 103,949	$ 35,113	$ 65,356	$ 54,509	$ 36,293	$ 11,835
	$ 36,748	$ 30,200	$ 26,825	$ 24,342	$ 20,933	$ 24,540	$ 17,476
	$ 6,101	$ 6,015	$ 5,567	$ 5,038	$ 5,066	$ 5,079	$ 5,105
	$ 0.34	$ 0.34	$ 0.32	$ 0.28	$ 0.28	$ 0.28	$ 0.28

CORPORATE INFORMATION

Directors

Loraine M. Charlton
Corporate Director
Calgary, Alberta

Douglas Dafoe
President and CEO
Ember Resources Inc.
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,
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 and
Managing Director, US Operations

Colin A. Dease
Corporate Secretary

Fred O. Hensel
Vice President,
Canadian Operations

Craig W. Kushner
Director of Human Resources

Darcy Reynolds
Vice President, Finance and
Chief Financial Officer

Karl A. Ruud
President and Chief Executive Officer

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Calgary, Alberta

Counsel

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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)

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