AKITA DRILLING

ANNUAL REPORT 2019

AKITA
523

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, Métis and Inuit 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 approximately 650 people. The Company has ownership in 40 drilling rigs in all depth ranges.

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FORWARD-LOOKING STATEMENTS

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 2019 Annual Report for AKITA.

Annual Meeting

The annual meeting (the "Meeting") of the shareholders of AKITA Drilling Ltd. (the "Company") will be held in a virtual only format via live webcast on Tuesday, May 12, 2020 at 10:00 a.m. Mountain Daylight Time. Details on how to access the Meeting can be found in the Company's Management Proxy Circular.

LETTER TO THE SHAREOWNERS

We would like to express a special thanks to AKITA's employees for their adaptability, hard work and commitment.

AKITA Drilling Ltd.'s net loss for the year ended December 31, 2019 was $19,875,000 (net loss of $0.50 per share (basic and diluted)) on revenue of $175,890,000 compared to a net loss of $15,939,000 ($0.65 loss per share (basic and diluted)) on revenue of $118,361,000 in 2018. Earnings before interest, depreciation, tax and amortization for the current year was $19,131,000 compared to $16,447,000 in 2018, while net cash from operating activities for 2019 was $21,558,000 compared to a loss of $8,494,000 in 2018.

In Canada, the Company's utilization for the year decreased to 19% in 2019 from 33% in 2018. Operating income for the Canadian segment fell to $15,100,000 in 2019 from $22,943,000 in 2018. The uncertainty in the Canadian oilfield industry that characterized 2018 continued throughout 2019. Regulated production cuts, pipeline capacity and political and regulatory uncertainty weighed heavily on the Canadian energy industry, which in turn affected drilling activity. One segment especially impacted by the aforementioned factors is the heavy oil segment which is the Company's primary market in Canada. The Company's operating margin per day increased to $9,402 per day in 2019 from $8,194 in 2018, despite the significant decrease in activity in 2019. This increase in operating margin per operating day is due to the rig mix in 2019 and a continued focus on cost control. Without a significant shift in demand for drilling rigs, or a further reduction in the overall capacity of the Canadian rig fleet, AKITA does not anticipate any significant pricing or activity increases in Canada in the near future.

On November 13, 2019, the Canadian Association of Oilwell Drilling Contractors ("CAODC") released its 2020 industry

drilling forecast, estimating 25% average rig utilization, up from the 23% actual average rig utilization in 2019, and estimating 4,905 wells in 2020, up slightly from 4,896 in 2018. The 2019 forecast was based upon commodity price assumptions of USD $65.00 per barrel for crude oil and CAD $2.19 per mcf for natural gas. Based on the CAODC forecast it would appear that 2020 will be very similar to 2019. Without improvements to the existing take-away capacity in Canada, growth in the Canadian market may remain challenged. The Company's focus in 2020 will be on continued cost control in its Canadian operations, while increasing its active rig count.

AKITA's utilization in the US was 60% in 2019, compared to 61% (from when rigs were owed by AKITA) for 2018. Revenue in the US division increased by 139% to $127,514,000 from $53,368,000 in 2018, which is directly attributable to the number of operating days in 2019 (3,747) compared to 2018 (1,783). Operating margin per operating day increased to $10,806 in 2019 from $8,603 in 2018 as a result of higher day rates and lower costs. In the US, the Company is looking to 2020 with optimism. At December 31, 2019, 14 of the Company's 17 US rigs were operating or getting ready to operate and another drilling rig was preparing to move from Canada to the US, which will result in 15 rigs out of 18 rigs operating in January. With 13 rigs located in or around the Permian Basin, demand for the Company's rigs should remain strong. This level of activity, coupled with the cost cutting measures that were implemented in 2019, should result in improvement in the US division for 2020, compared to 2019.

The Company's dividend program was suspended in July 2019 to improve the Company's financial flexibility in the current economic environment.

The significant acquisition of Xtreme Drilling in 2018 increased the Company's rig fleet and expanded its geographical diversification between Canada and the US. The Company's focus in 2019 was on integrating the two companies. Focusing on reducing costs through right-sizing the combined company and improving efficiencies. The 2020 results should reflect the completed integration and allow the company to focus on cash generation and debt repayment in 2020.

We would like to express a special thanks to AKITA's employees for their adaptability, hard work and commitment. We would like to express appreciation to our partners, customers and suppliers who worked closely with us during 2019 to arrive at innovative solutions for working through challenging times in Canada and in establishing the Company's presence in the US. We also 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. Finally, we acknowledge 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

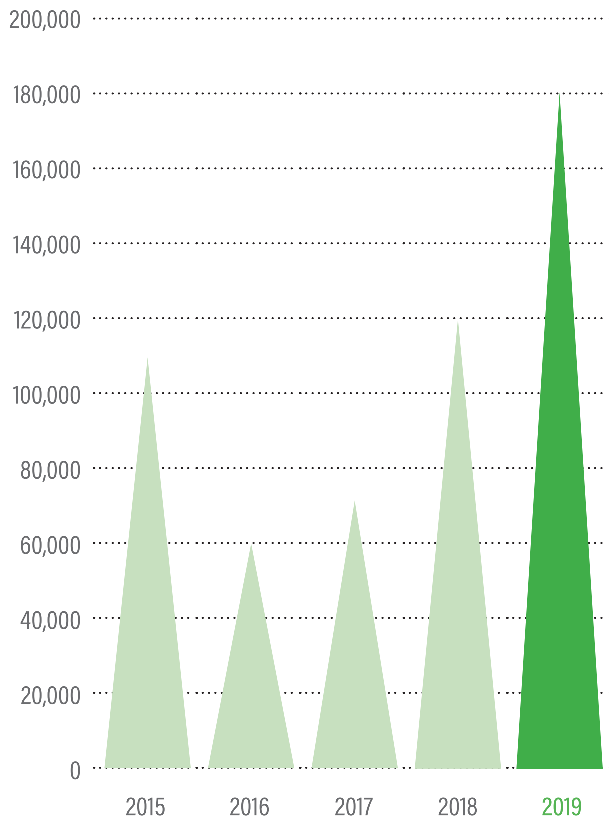
Karl A. Ruud
President and Chief Executive Officer

March 4, 2020

OPERATIONAL PERFORMANCE

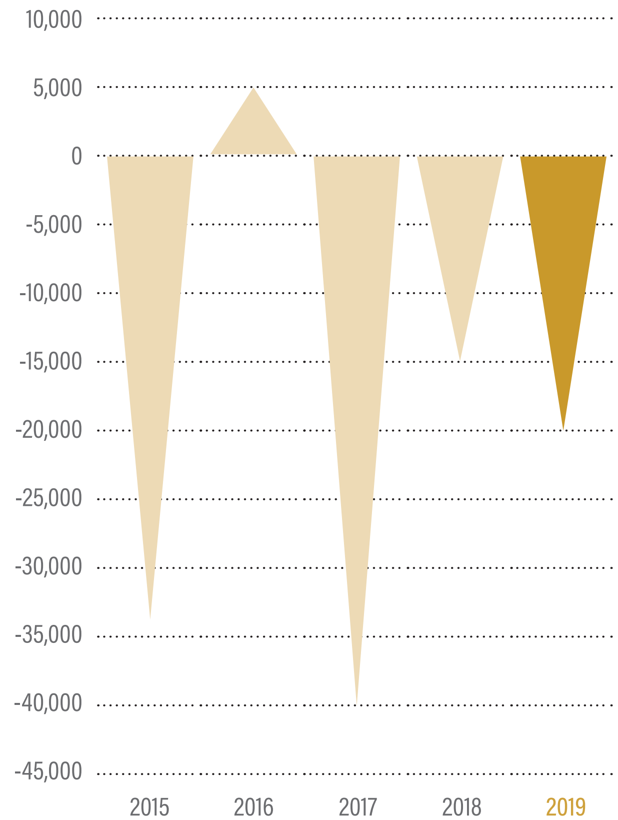
Revenue ($000's)

In 2019, AKITA's US operations generated $127 million, 72% of the total revenue. The Company's total revenue for 2019 was $176 million, a 49% improvement over 2018.



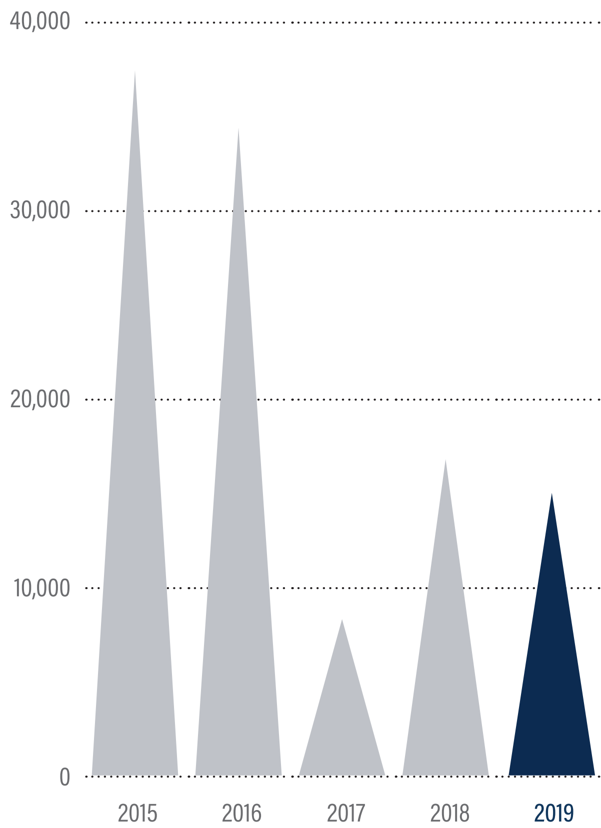
Net Earnings (Loss) ($000's)

AKITA's net loss increased by 25% in 2019.



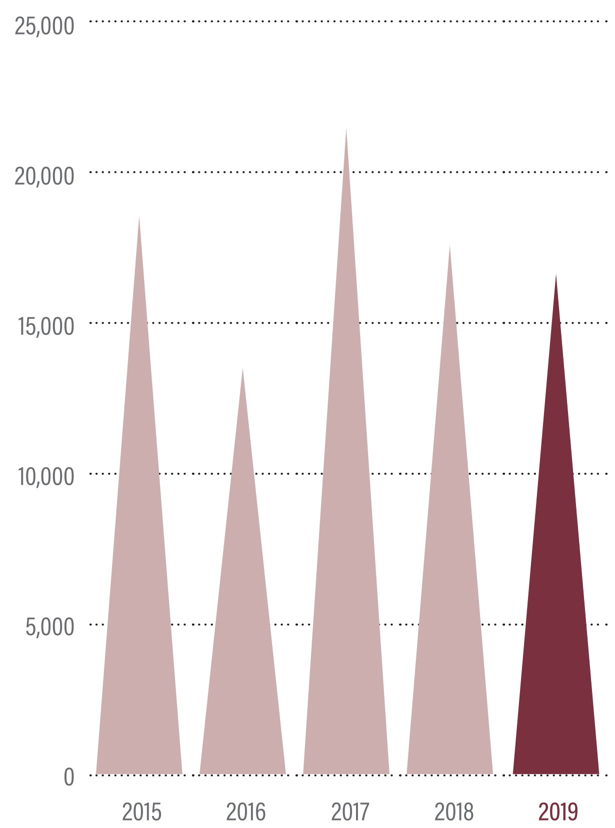
Adjusted Funds Flow from Operations ($000's)

Adjusted funds flow from operations decreased by 10% in 2019 compared to 2018.



Capital Expenditures ($000's)

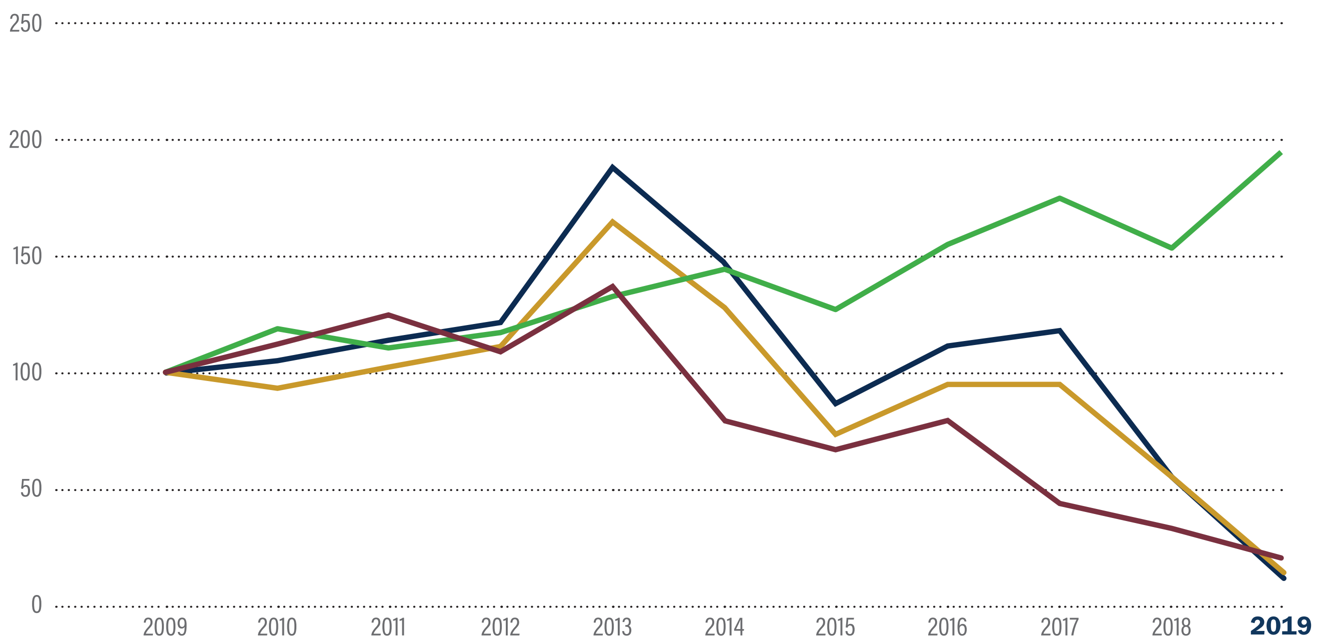
AKITA's 2019 capital expenditure program was down from 2018.



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, 2019 with the cumulative total return of the S&P/TSX 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 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	**Dec 31 2019**
AKITA Class A Non-Voting Shares	100	103	112	120	185	149	85	110	116	59	**18**
AKITA Class B Common Shares	100	96	101	111	170	127	75	97	96	58	**21**
S&P/TSX Composite Index	100	118	107	115	130	144	132	160	174	159	**195**
TSX Oil & Gas Drilling Sub-Index	100	110	123	109	134	83	60	79	47	33	**25**

Share Performance

		2015	2016	2017	2018	**2019**
Weighted average number of Class A and Class B shares		17,988,552	17,969,415	17,948,502	24,551,542	**39,608,191**
Total number of Class A and Class B shares		17,969,415	17,948,502	17,945,661	39,608,191	**39,608,191**
Market prices for Class A Non-Voting shares	High	$12.56	$9.20	$9.88	$8.38	**$4.42**
	Low	$6.10	$5.88	$6.52	$3.41	**$0.75**
	Close	$6.79	$8.45	$7.36	$4.07	**$1.19**
Volume		1,603,746	930,748	1,324,111	2,192,522	**8,875,748**
Market prices for Class B Common shares	High	$13.30	$11.00	$9.95	$8.16	**$4.48**
	Low	$6.87	$7.11	$6.94	$3.77	**$1.25**
	Close	$6.87	$8.53	$7.61	$4.60	**$1.57**
Volume		32,326	18,674	41,479	19,313	**53,746**

Dividend History

AKITA began paying dividends to shareholders in 1996. In July 2019, AKITA suspended its dividend program in light of the current economic environment.

	2015	2016	2017	2018	**2019**
Dividends per share ($)	0.34	0.34	0.34	0.34	**0.17**

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, 2019, is dated March 4, 2020, 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, 2019. The MD&A should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2019, 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.

Introduction

AKITA is a premier Canadian oil and gas drilling contractor with a fleet of 40 drilling rigs. AKITA provides contract drilling services through two geographical segments: Canada and the United States ("US"). With a fleet of 23 rigs, AKITA's Canadian division operates in Alberta, British Columbia, Saskatchewan, and from time to time, in the Yukon and the Northwest Territories. The Canadian division operates both wholly-owned rigs and rigs that are partially owned by AKITA and First Nations, Métis or Inuit joint venture partners including; Akita Mistiyapew Aski Drilling Ltd., Akita Equtak Drilling Ltd., and Akita Wood Buffalo Drilling Ltd., each of which has defined geographical boundaries. With a fleet of 17 rigs, AKITA's US division conducts operations in Colorado, Wyoming, Texas, New Mexico, and Oklahoma.

With a focus on the efficient 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

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Financial Highlights

$Thousands except per share amounts	2019	2018	Change	% Change
Revenue	**175,890**	118,361	57,529	49%
Operating expenses	**121,588**	86,575	35,013	40%
Operating margin [1]	**54,302**	31,786	22,516	71%
Margin % [1]	**31%**	27%	4%	15%
Adjusted EBIDTA [1]	**19,131**	16,447	2,684	16%
Per share	**0.48**	0.67	(0.19)	(28%)
Adjusted funds flow from operations [1]	**12,925**	14,135	(1,210)	(9%)
Per share	**0.33**	0.58	(0.25)	(43%)
Net loss	**19,875**	15,939	3,936	25%
Per share	**0.50**	0.65	(0.15)	(23%)
Capital expenditures	**15,238**	17,546	(2,308)	(13%)
Dividend declared	**6,734**	9,784	(3,050)	(31%)
Weighted average shares outstanding	**39,608**	24,552	15,057	61%
Total assets	**369,116**	403,641	(34,525)	(9%)
Total debt	**84,019**	82,939	1,080	1%

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

Operational Highlights

	2019	2018	Change	% Change
Operating days				
Canada	**1,606**	2,800	(1,194)	(43%)
United States	**3,747**	1,783	1,964	110%
Revenue per operating day [1]				
Canada [2]	**33,415**	31,354	2,061	7%
United States	**34,031**	29,932	4,099	14%
Operating and maintenance per operating day [1]				
Canada [2]	**24,013**	23,160	853	4%
United States	**23,225**	21,329	1,896	9%
Utilization				
Canada	**19%**	33%	(14%)	(42%)
United States [3]	**60%**	61%	(1%)	(1%)

[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 based on the number of days each rig was physically in the US and owned by the Company.

General Overview

The 2019 financial results for the Company, when compared to 2018, were mixed. Revenue increased by 49% to $175,890,000 in 2019 from $118,361,000 in 2018, operating margin increased 71% to $54,302,000 in 2019 compared to $31,786,000 in 2018 and adjusted EBITDA increased to $19,131,000 in 2019, up from $16,447,000 in 2018. Adjusted funds flow from operations decreased to $12,925,000 in 2019 from $14,135,000 in 2018 and the Company's net loss increased to $19,875,000 in 2019 from $15,939,000 in 2018.

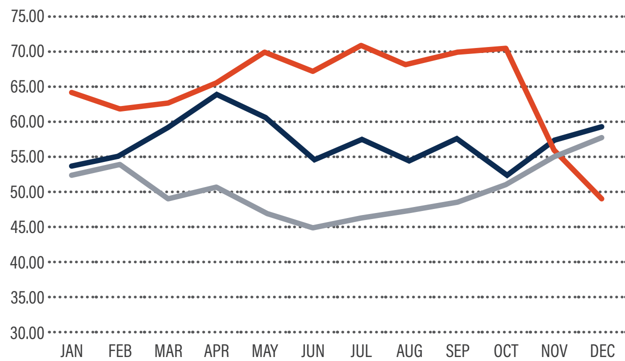
The Company's US operating segment, which consisted of 17 rigs at December 31, 2019, started 2019 very active with 16 out of 17 rigs operating. This level of demand began to fall near the end of the first quarter as many operators decreased their capital budgets to operate within free cash flow, negatively impacting demand for drilling services. This translated into a decline in drilling activity for the industry, as well as AKITA, and impacted the financial results in AKITA's US segment. Results in the US division were further impacted by AKITA's consolidation plan to move rigs to more active basins as part of its strategic plan, which caused short term reductions in activity and one-time costs. Despite this decline in activity, the Company's US division generated 72% of the Company's 2019 revenue, up from 45% in 2018.

In Canada, 2019 results were significantly below 2018 as decreased activity in Canada was driven by a lack of take-away capacity, production curtailments and general uncertainty over the future of the Canadian market, all of which contributed towards sustained low dayrates and had a significant impact on the Company's oil sands and heavy oil drilling operations, which are the Canadian division's primary market.

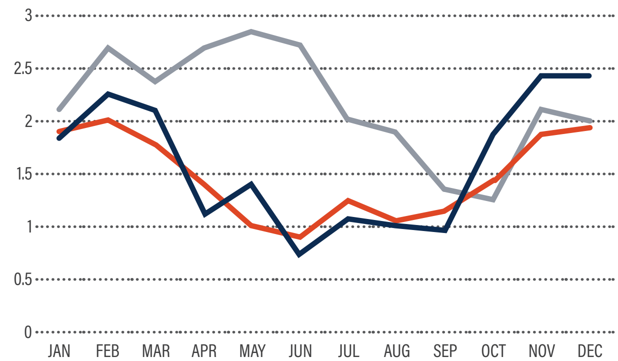
Industry Overview

2019
2018
2017

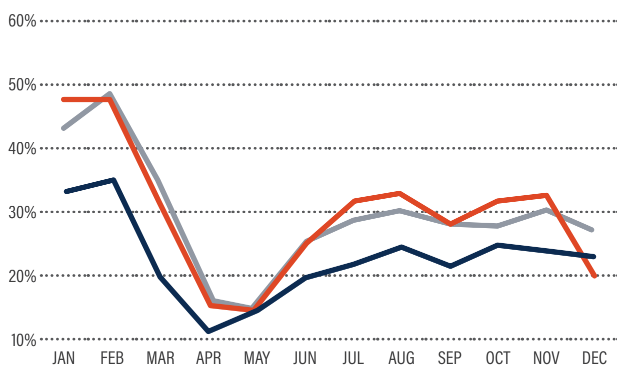
WTI Prices ($USD) (1)



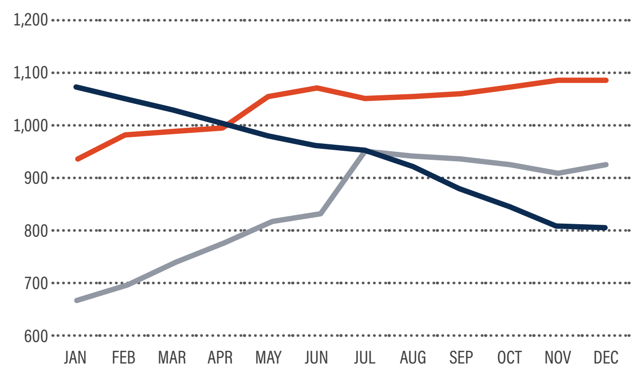
Alberta Natural Gas Price ($CAD) (2)



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. In 2019, West Texas Intermediate ("WTI") prices fluctuated significantly throughout the year. This volatility impacted the demand for drilling services in North America.

In Canada, industry utilization continues to be below 2017 and 2018 levels. This reduced activity is primarily due to uncertainty in the Canadian market over take-away capacity and government policy, with WTI volatility a secondary factor.

In the US, industry activity has declined steadily throughout 2019 from the level set in the first quarter of 2019 due to two factors, the volatility in oil and gas prices, and the pressure on operators to operate within free cash flow. Both factors have impacted the capital budgets of AKITA's customers and resultant demand for drilling services.

Results by Segment

Canada

$Thousands except per day amounts	2019	2018	Change	% Change
Revenue [1]	**53,665**	87,790	(34,125)	(39%)
Operating and maintenance [1]	**38,565**	64,847	(26,282)	(41%)
Operating margin	**15,100**	22,943	(7,843)	(34%)
Margin %	**28%**	26%	2%	8%
Operating days	**1,606**	2,800	(1,194)	(43%)
Revenue per operating day [1] [2]	**33,415**	31,354	2,061	7%
Operating and maintenance per operating day [1] [2]	**24,013**	23,160	853	4%
Operating margin per operating day [1] [2]	**9,402**	8,194	1,208	15%
Utilization	**19%**	33%	(14%)	(42%)
Rig count	**23**	23	-	-

[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 2019, AKITA achieved 1,606 operating days in Canada, which corresponds to an annual utilization rate of 19%, compared to 2018 utilization rate of 33% (2,800 days), and a 2019 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 requiring trucks to move. The decreased demand in oil sands drilling had the largest impact on the Company's utilization in 2019.

Activity in Canada, for AKITA and the industry, decreased in 2019 from 2018 due to infrastructure constraints and uncertainty over the future of the Canadian market which affected the capital spending of Canadian oil and gas companies. Activity was also impacted by lower average WTI prices.

Canadian revenue of $53,665,000 in 2019 was 39% lower than 2018 revenue of $87,790,000, due to decreased activity in 2019. Revenue per day increased in 2019 to $33,415 per day from $31,354 per day in 2018, a 7% increase, as a result of a greater percentage of higher specification rigs working. 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 drilling rigs as it does its wholly-owned rigs.

Operating and maintenance costs are tied to activity levels and decreased to $38,565,000 in 2019 from $64,847,000 in 2018 including AKITA's share of costs from its joint venture rigs. On a per day basis, 2019 remained consistent with the prior year, increasing only 4% in 2019 over 2018.

AKITA's Canadian segment provided drilling services to 19 different customers in 2019 (2018 - 29 different customers), including five customers that each provided more than 10% of AKITA's Canadian revenue for the year (2018 – two customers).

United States

$Thousands except per day amounts (CAD)	2019	2018	Change	% Change
Revenue	**127,514**	53,368	74,146	139%
Operating and maintenance	**87,023**	38,029	48,994	129%
Operating margin	**40,491**	15,339	25,152	164%
Margin %	**32%**	29%	3%	10%
Operating days	**3,747**	1,783	1,964	110%
Revenue per operating day [1]	**34,031**	29,932	4,099	14%
Operating and maintenance per operating day [1] [2]	**23,225**	21,329	1,896	9%
Operating margin per operating day [1]	**10,806**	8,603	2,203	26%
Utilization [2]	**60%**	61%	(1%)	(1%)
Rig count	**17**	17	-	-

[1] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".
[2] Utilization in the US is 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 Drilling Corp. ("Xtreme") in September of 2018, for a total US fleet of 17 rigs in the US at December 31, 2019. Activity in the US totaled 3,747 operating days in 2019 compared to 1,783 in 2018. This 110% increase in operating days is attributable to the drilling rigs acquired through the Xtreme acquisition being part of the Company for a full year in 2019 as compared to 2018 when the acquired rigs were only included from September 12 to December 31 in 2018.

Revenue in the US was $127,514,000 for 2019 (2018 – $53,368,000) equal to 72% of the Company's total revenue. Revenue increased as a direct result of having a larger rig fleet with corresponding increased activity, as did operating expenses which increased to $87,023,000 in 2019 from $38,029,000 in 2018.

Operating margin per operating day increased by 26% in 2019 to $10,806 from $8,603 in 2018. This increase in operating margin per operating day is a result of higher day rates. Operating and maintaining costs per operating day increased to $23,225 in 2019 from $21,239 in 2018 as a result of move costs incurred as part of the Company's consolidation plan, moving rigs to more active areas.

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 and more diverse Company.

In the US, AKITA provided drilling services to 19 different customers in 2019 (2018 – 16), including three customers that each provided more than 10% of AKITA's US revenue for the year (2018 – four).

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 Canadian winter drilling season ends with "spring break-up" at which time most drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land as frozen ground thaws. 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, it is less affected by spring break-up than are AKITA's operations in 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	2019	2018	Change	% Change
Depreciation and amortization expense	36.8	26.6	10.2	38%

TThe increase in depreciation and amortization expense to $36,763,000 during 2019 from $26,614,000 during 2018 was attributable to the addition of the Xtreme rigs in late 2018. These assets totaled $188,781,000 and significantly increased the Company's depreciable asset base. Also adding to the increase in amortization in 2019 is the impact of IFRS 16 "Leases" which was implemented on January 1, 2019. The total impact due to the adoption of IFRS 16 "Leases" on amortization is $1,926,000. Drilling rig depreciation accounted for 97% of total depreciation and amortization expense in 2019 (2018 – 97%).

While AKITA conducts some of its drilling operations via joint ventures, the drilling rigs used to conduct those activities are owned jointly by AKITA and its joint venture partners, and not by the joint ventures themselves. As the joint ventures do not hold any property, plant, or equipment assets directly, the Company's depreciation expense includes depreciation on assets involved in both wholly-owned and joint venture activities.

Selling and Administrative Expenses

$Millions	2019	2018	Change	% Change
Selling and administrative expenses	36.2	22.6	13.6	60%

Selling and administrative expenses increased to $36,237,000 in 2019 from $22,611,000 in 2018. The increase in 2019 is related to the addition of the US-based selling and administrative costs from the acquisition of Xtreme.

Selling and administrative expenses equated to 21% of revenue in 2019 compared to 19% in 2018. The single largest component of selling and administrative expenses is salaries and benefits which accounted for 45% of these expenses in 2019 (2018 – 33%).

Asset Impairment

$Millions	2019	2018	Change	% Change
Right-of-use asset impairment loss	0.3	-	0.3	n/a

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, 2019, 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, 2019, 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, 2019 (2018 - nil). The Company also concluded that there were no reversals of previous asset impairments required at December 31, 2019.

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, 2019, management determined recoverable amounts for its CGUs using a fair value less costs to dispose of each CGU. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value. External appraisals of the Company's assets were completed in October of 2019 and relied upon for testing at December 31, 2019. As industry and asset conditions have not changed significantly since the time that the appraisals were completed, management feels the appraisals are still valid at year end.

At December 31, 2019, the total fair market value of each of the Company's CGUs was between 7% and 14% greater than its book value and therefore management concluded that the net book value of each CGU was consistent with the fair value and allowed for variations in the fair value approximations of $14 to $16 million per CGU.

During the third quarter of 2019, the Company relocated its US office from Houston, Texas to Denver, Colorado. The Company entered into a sublease for its Houston office lease's remaining four year term. The sublease was an onerous lease contract which resulted in the Company derecognizing the Right-of-Use ("ROU") asset of $859,000, recording a lease receivable of $583,000, which is an estimate of the unguaranteed residual value of the sub-lease, and recognizing a ROU asset impairment loss of $276,000. Additionally the Company recognized interest receivable and unearned interest revenue of $65,000. The amount of the lease receivable due within the next twelve months is classified as prepaid expenses and other while the remaining lease receivable is classified as other long-term assets on the Company's Statement of Financial Position.

Equity Income from Joint Ventures

Equity income from joint ventures is comprised of the following:

$Millions	2019	2018	Change	% Change
Proportionate share of revenue from joint ventures	**5.3**	22.8	(17.5)	(77%)
Proportionate share of operating & maintenance expenses from joint ventures	**4.1**	16.3	(12.2)	(75%)
Proportionate share of selling and administrative expenses from joint ventures	**0.1**	0.3	(0.2)	(67%)
Equity income from joint ventures	**1.1**	6.2	(5.1)	(82%)

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 activity, revenue per day as well as operating expenses. The decrease in both revenue and expenses for the Company's proportionate share of joint ventures is related to the decreased activity for the Company's joint venture rigs in 2019 compared to the same period in 2018.

Other Income (Loss)

$Millions	2019	2018	Change	% Change
Interest income	-	0.1	(0.1)	(100%)
Interest expense	(6.8)	(2.1)	(4.7)	(224%)
Gain (loss) on sale of assets	(0.4)	0.6	(1.0)	(167%)
Net other gains	0.4	0.4	-	-
Total other loss	(6.8)	(1.0)	(5.8)	(580%)

During 2019, the Company recorded interest expense of $6,771,000 (2018 – $2,121,000). 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 interest on the debt assumed as part of the acquisition.

During 2019, the Company disposed of non-core assets resulting in a loss of $476,000 with total proceeds of $1,823,000 compared to a gain of $567,000 in 2018 with proceeds of $640,000.

In 2019, amounts reported as "Net Other Gains" of $393,000 included proceeds on non-depreciable assets of $608,000 which was offset by a foreign exchange loss of $305,000. In 2018, net other gains were $453,000 and included $227,000 in foreign exchange and other miscellaneous income.

Income Tax Expense (Recovery)

$Millions, except income tax rate (%)	2019	2018	Change	% Change
Current tax expense	0.1	0.1	-	-
Deferred tax expense (recovery)	(4.9)	3.5	(8.4)	(240%)
Total income tax expense (recovery)	(4.8)	3.6	(8.4)	(233%)
Effective income tax rate	26.6%	27.0%		

AKITA had an income tax recovery of $4,804,000 in 2019 compared to a tax expense of $3,651,000 in 2018. Deferred tax decreased to a recovery of $4,872,000 in 2019 compared to an expense of $3,508,000 in 2018. This change is a result of intercompany asset sales between jurisdictions and unrecognized deferred tax assets in 2018. Also affecting the deferred tax recovery is the change in the provincial corporate tax rate enacted by the Alberta Government whereby the provincial corporate tax rate will be reduced from 12% to 8% by January 1, 2022.

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

$Millions	2019	2018	Change	% Change
Net loss	(19.9)	(15.9)	(4.0)	(25%)
Net cash from (used in) operating activities	21.6	(8.5)	30.1	354%
Adjusted funds flow from operations [1]	12.9	14.1	(1.2)	(9%)

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

During 2019, the Company recorded a net loss of $19,875,000 (net loss of $0.50 per Class A Non-Voting and Class B Common share (basic and diluted)) compared to 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)) in 2018. There were several factors that influenced the decrease in net earnings, year over year; interest costs increased by $4 million, selling and administrative costs increased by $14 million, depreciation increased by $10 million and equity income from joint ventures decreased by $5 million, offset by $22 million in higher operating profit and a tax recovery of $5 million. The influencing factors noted above are discussed throughout this MD&A.

Net cash from (used in) operating activities increased in 2019 to $21,558,000 in 2019 from negative $8,494,000 in 2018 due primarily to changes in non-cash working capital.

Adjusted funds flow from operations[1] decreased to $12,925,000 in 2019 from $14,135,000 in 2018 due to increased interest expense and decreased equity income from joint ventures.

Summary of Quarterly Results

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

$Thousands, except per share (unaudited)	Three Months Ended				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual Totals
2019					
Revenue	**52,342**	**39,119**	**42,610**	**41,819**	**175,890**
Net loss	**(1,470)**	**(5,067)**	**(5,397)**	**(7,941)**	**(19,875)**
Loss per share (basic and diluted) ($)	**(0.04)**	**(0.13)**	**(0.14)**	**(0.19)**	**(0.50)**
Adjusted funds flow from operations [1]	**7,828**	**1,559**	**3,076**	**462**	**12,925**
Cash flow from (used in) operations	**(4,287)**	**24,903**	**(735)**	**1,677**	**21,558**
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) ($)	(0.11)	(0.16)	(0.24)	(0.14)	(0.65)
Adjusted funds flow from (used in) operations [1]	4,519	1,638	(637)	8,615	14,135
Cash flow from (used in) operations	2,819	9,860	(7,428)	(13,745)	(8,494)
2017					
Revenue	19,193	17,986	14,908	19,111	71,198
Net loss	(4,975)	(4,491)	(3,811)	(25,900)	(39,177)
Loss per share (basic and diluted) ($)	(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

[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 directly impact revenue and net income, decreased in 2019 compared to 2018 and 2017, which has had an impact on the Company's financial results;
- The impact on revenue of the Company's acquisition of Xtreme at the end of the third quarter of 2018 is reflected in the fourth quarter of 2018 and full year 2019 results;
- Day rates in Canada and the US continue to be below full cycle returns resulting in lower than anticipated funds flow from operations and net earnings for the Company; 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,	2019	2018	Change	% Change
Operating days				
Canada	390	637	(247)	(39%)
United States	756	1,233	(477)	(39%)
Revenue per operating day [1]				
Canada [2]	34,913	30,413	4,500	15%
United States	40,481	30,359	10,122	33%
Operating and maintenance per operating day [1]				
Canada [2]	25,479	23,086	2,393	10%
United States	30,811	19,929	10,882	55%
Operating margin per operating day [1]				
Canada [2]	9,434	7,327	2,107	29%
United States	9,670	10,430	(760)	(7%)
Utilization				
Canada	18%	30%	(12%)	(39%)
United States	48%	79%	(31%)	(39%)

[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 2019, the Company had 390 operating days in Canada compared to 637 operating days during the corresponding period in 2018. Lack of take-away capacity affected demand for drilling services in the Canadian market along with mandated production cuts imposed on unconventional oil by the Alberta government. This decrease in activity in Canada was mirrored in the US as activity through the year has declined quarter over quarter. This was magnified in the fourth quarter with the Company moving drilling rigs from other locations in the US to the Permian Basin for 2020 drilling programs.

AKITA incurred a net loss of $7,941,000 (net loss of $0.19 per Class A Non-Voting and Class B Common share (basic and diluted)) for the fourth quarter of 2019 compared to a net loss of $5,609,000 or $0.14 loss per share (basic and diluted) in the fourth quarter of 2018. The increased loss in 2019 is a direct result of decreased activity. Adjusted funds flow from operations decreased to $462,000 in the fourth quarter of 2019 from $8,615,000 in the corresponding quarter in 2018 due to lower activity and increased overhead costs.

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)	2019	2018	2017
Revenue	**175,890**	118,361	71,198
Net loss	**(19,875)**	(15,939)	(39,177)
Loss per share (basic and diluted)	**(0.50)**	(0.65)	(2.18)
Dividends per Class A Non-Voting and Class B Common share [1]	**0.17**	0.34	0.34
Adjusted funds flow from operations [2]	**12,925**	14,135	6,607
Net cash from (used in) operating activities	**21,558**	(8,494)	5,074
Year-end working capital	**4,155**	11,166	15,528
Year-end shareholders' equity	**245,134**	271,728	174,455
Year-end total assets	**369,116**	403,641	207,497

[1] The Company's dividend program was suspended in July of 2019.
[2] See commentary in "Basis of Analysis in this MD&A and Non-GAAP Items".

Liquidity and Capital Resources

At December 31, 2019, AKITA had $4,155,000 in working capital (working capital ratio of 1.14:1), compared to a working capital of $11,166,000 (working capital ratio of 1.31:1) and $1,503,000 cash for the previous year. In 2019, AKITA generated $21,568,000 in cash from operating activities. Positive cash was generated from joint venture distributions ($3,937,000), from reductions in restricted cash ($756,000) and from proceeds on sales of assets ($1,823,000). During the same period, cash was used for capital expenditures ($15,238,000) and payment of dividends ($10,101,000). Accounts payable at year-end included $14,413,000 in accrued expenses, three quarters of which related to routine operations while the other quarter related to one-time items.

The Company has a syndicated operating loan facility totaling $125,000,000 that is available until 2023. The interest rate on the operating loan facility ranges from 50 to 200 basis points over prime interest rates depending on the Funded Debt[1] 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 loan facility was amended in December of 2019 to change the Funded Debt[1] to EBITDA[1] ratio to allow the Company more financial flexibility. The credit facility includes two financial covenants:

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

   i. for the Fiscal Quarters ending December 31, 2019 and March 31, 2020, the Funded Debt[1] to EBITDA[1] Ratio shall not be more than 4.00:1.00;

   ii. for the Fiscal Quarters ending June 30, 2020 and September 30, 2020, the Funded Debt[1] to EBITDA[1] Ratio shall not be more than 3.50:1.00; and

   iii. for the Fiscal Quarter ending December 31, 2020 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 is 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:

[1] Readers should be aware that each of the EBITDA, Funded 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 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 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. At December 31, 2019, the Company was in compliance with its covenants with a Funded Debt[1] to EBITDA[1] ratio of 3.78:1 and an EBITDA[1] to Interest Expense[1] ratio of 3.42:1.

At December 31, 2019, the Company had $77,535,000 outstanding on its operating loan facility (2018 – $74,991,000). For the twelve months ended December 31, 2019 the average interest rate on the Company's operating loan facility was 5.66%.

In addition to the Company's operating loan facility, the Company also had $6,484,000 (2018 - $14,117,000) in debt outstanding at December 31, 2019 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. In the third quarter of 2019, the Company suspended its dividend program to improve liquidity.

The Company did not have an outstanding normal course issuer bid during 2019 or 2018.

Property, Plant and Equipment

Capital expenditures totalled $15,238,000 in 2019 ($17,546,000 in 2018). Capital spending in 2019 was as follows; $7,545,000 (2018 - $7,400,000) for certifications and overhauls, $2,837,000 (2018 - $2,002,000) in drill pipe and drill collars and $4,856,000 (2018 - $8,144,000) for drilling rig equipment and upgrades.

During 2019, the Company sold ancillary assets for $1,823,000 (2018 - $640,000) that resulted in a loss of $476,000 (2018 – gain of $567,000).

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. 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.

[1] Readers should be aware that each of the EBITDA, Funded 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.

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 2019 and 2018 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Operating purchases totaled $876,000, and included sponsorship and advertising of $365,000, wellsite trailer rentals of $458,000 and other miscellaneous purchases of $53,000. At December 31, 2019, the outstanding commitment of the Company's multi-year sponsorship and advertising contract with Spruce Meadows was $350,000. Costs incurred related to this contract during 2019 were $325,000 (2018 - $325,000). Costs and related services are consistent with parties dealing at arm's length.

The Company incurred legal fees of $134,000 (2018 - $368,000) 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, 2019. At December 31, 2019, $21,000 (December 31, 2018 - $5,000) of this amount was included in accounts payable.

The Company is related to its joint ventures. The following 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	2019	2018
Operating and maintenance expenses	773	3,288
Selling and administrative expenses	103	448
Year-end due to AKITA from partners	1,031	278
Year-end due to AKITA from joint ventures	885	1,021

Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2019, the Company had 11 drilling rigs with multi-year contracts. Of these contracts, nine are due to expire in 2020 and two in 2021.

The Company has entered into a two year contract with a related party to provide sponsorship and advertising at an annual cost of $175,000.

At December 31, 2019, the Company had capital expenditure commitments of $1,406,000 (2018 – $3,302,000).

Class A and Class B Share Dividends

Per share	2019	2018	Change	% Change
Dividends per share ($)	0.17	0.34	(0.17)	(50%)

During 2019, AKITA declared dividends totaling $6,374,000 ($0.17 per share) on its Class A Non-Voting shares and Class B Common shares, compared to $9,784,000 ($0.34 per share) for 2018. The Company's dividend program was suspended in July of 2019 to improve the Company's financial flexibility in the current economic environment.

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	Class A Non-Voting		Class B Common		Total	
$Thousands, except share amounts	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
December 31, 2018	37,954,407	144,898	1,653,784	1,366	39,608,191	146,264
Shares issued in 2019	-	-	-	-	-	-
December 31, 2019	**37,954,407**	**144,898**	**1,653,784**	**1,366**	**39,608,191**	**146,264**

At March 4, 2020, 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 1,406,000 stock options outstanding, of which 914,000 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.

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 writedown 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 $5,208,000 at December 31, 2019 (2018 - $4,712,000). 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 2019, a key assumption is the 3.0% discount rate (2018 – 3.6%).

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.

Business Risks and Risk Management

The following information is a summary only of certain risk factors relating to the business of AKITA 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 indefinite periods of time. The price AKITA's customers receive for their production 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 both demand and 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 service.

Competition

The contract drilling industry is highly competitive and includes a large number of drilling contractors with varied rig fleets. Drilling contracts are usually awarded through a competitive bid process with pricing and rig suitability and availability being primary drivers in the bid process. Other factors that influence the bid process include: mobility and efficiency of the 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 2019 from two 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 breakup, 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 and floods in the southern states, or 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 industry 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 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. As an oilfield service company, AKITA's ability to obtain additional debt or equity financing could be constrained by pressure from investors and environmental groups to divest from fossil fuel related investments. 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 ("USD") and, accordingly, a material decrease in the value of the USD 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, 2023 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.

Carbon Emissions, Climate Change Activism and Environmental Regulations

While AKITA's operations, and those of its customers, 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, the trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, particularly regarding the generation of carbon emissions. AKITA operates in jurisdictions that have regulated, or proposed to regulate, industrial carbon emissions. Laws and regulations implemented to reduce carbon emissions have potential to impose significant compliance costs on the oil and gas, potash and mining companies that the Company provides drilling services for. Consequently, future oil and gas, potash and mining development could face increased operating costs relating to increased carbon regulation which could result in a reduced demand for the drilling services that AKITA provides.

In recent years, public support for climate change action and pressure by climate activists to shift from fossil fuels to alternative and renewable energy technology has grown. Climate change activist impact could reduce demand for hydrocarbons in favour of low carbon intense fuels. Further, within Canada, increased climate change activism has translated to opposition to new pipeline approvals, ongoing oil sands development and the practice of hydraulic fracturing.

Laws, regulations and guidelines relating to carbon emissions, spills, releases, and discharges of hazardous substances or other waste materials into the environment, requiring removal or remediation of pollutants or contaminants are increasingly becoming more stringent and can impose 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.

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 its 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.

Dilution

AKITA's articles permit the issuance of an unlimited number of Class A Non-Voting or Class B Common shares and the Company 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 other purposes, 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: Funded Debt to EBITDA and EBITDA to Interest Expense. A failure to comply with the obligations in the agreements in respect of 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, opposition to fossil fuel energy, 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 flow.

Risk Management

AKITA manages its risks by:

- *maintaining a conservative balance sheet that includes a low cost structure for the Company;*
- *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 drilling contracts whenever possible, but especially when tailoring rig construction or reconfiguration to customer demand;*
- *maintaining an efficient fleet of drilling 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.

The drilling industry in Canada, which has experienced low demand since 2015, continues to struggle when compared to its global peers. Insufficient pipeline capacity, arguably the main challenge to the drilling industry in Canada, remains unresolved. Continued court challenges for the Trans Mountain pipeline expansion and Keystone XL pipeline increase the uncertainty in the Canadian market. With limited access to external markets, Canadian oil and gas producers have elected to spend capital outside of the country if possible, or to not spend. This lack of capital spending by Canadian oil and gas companies directly affects the demand for drilling services. There is an oversupply of rigs in Canada for the current demand in the Canadian drilling market. Until there are clear and proven take-away capacity improvements, the Company is not expecting an improvement in Canadian activity. Accordingly, the Company's focus for its Canadian division in the near term will be on financial discipline and maintaining a strong fleet that is well-positioned to participate in the eventual Canadian market recovery.

In contrast to Canada, the Company is anticipating improved results in 2020 from its US division. Although overall demand for drilling services declined in 2019, there is still strong demand for high-specification drilling rigs in certain basins in the US market. Throughout 2019, the Company has focused on consolidation of its operating locations in the US and right-sizing the US division to efficiently manage its fleet of 17 rigs. US operations are now based out of just two locations, Midland, Texas and Greeley, Colorado, formerly there were five. Of the US division's 17 drilling rigs, 11 were located in the Permian Basin at year-end where demand for high-specification drilling rigs remains strong. The Company has 11 rigs contracted with steady programs through 2020 with two contracted through 2021. With significant cost reductions having taken place in 2019, and projected higher activity in 2020, the Company is optimistic that 2020 will show improvements over 2019. The Company also continues to market its Canadian fleet in the US, looking for opportunities to redeploy idle assets from Canada to the US.

The focus in 2020 will remain the same as it was in the second half of 2019, debt reduction to improve the Company's financial strength. Only a modest capital program is planned for Canada and the US with the majority of free cash flow going to debt repayment. Management feels that this is the best use of cash in the current market and should allow AKITA the ability to pursue growth opportunities once the Company's debt is lower.

Disclosure Controls and Internal Controls Over Financial Reporting

As of December 31, 2019, 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, 2019.

As of December 31, 2019, 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, 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, 2019.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on October 1, 2019 and ended December 31, 2019 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, 2019.

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

Revenue and Operating and Maintenance Expenses in Canada and Adjusted Revenue and Adjusted Operating and Maintenance Expenses

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. Adjusted revenue and adjusted operating and maintenance expenses includes total revenue and expenses from Canada including AKITA's share of joint ventures, as well as the US revenue and expenses.

$Thousands	2019	2018
Revenue from wholly-owned drilling rigs in Canada	48,376	64,993
Revenue from joint venture drilling rigs	5,289	22,797
Revenue in Canada	53,665	87,790
Revenue in the US	127,514	53,368
Adjusted revenue	181,179	141,158
Operating and maintenance expenses from wholly-owned drilling rigs in Canada	34,565	48,547
Operating and maintenance expenses from joint venture drilling rigs	4,099	16,300
Total operating and maintenance expenses in Canada	38,664	64,847
Operating and maintenance expenses in the US	87,023	38,028
Adjusted operating and maintenance expenses	125,687	102,875

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 indicative of 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 this MD&A should note that Adjusted EBITDA calculations may differ between AKITA and other companies. Adjusted EBITDA is used by management and investors to analyze the Company's profitability based on the Company's principal business activities prior to how these activities are financed, how assets are depreciated and amortized and how the results are taxed in various jurisdictions. AKITA calculates Adjusted EBITDA as follows:

$Thousands	2019	2018
Net loss attributable to shareholders	(19,875)	(15,939)
Interest expense	6,771	2,121
Income tax expense (recovery)	(4,804)	3,651
Depreciation and amortization	36,763	26,614
Right-of-use asset impairment loss	276	-
Adjusted EBITDA	19,131	16,447

Adjusted Funds Flow from Operations

Adjusted funds flow from operations is not a recognized GAAP measure under IFRS and users of this MD&A 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	2019	2018
Net cash from (used in) operating activities	21,558	(8,494)
Income tax recoverable	(305)	(2,812)
Current income tax expense	(67)	(143)
Interest paid	6,598	1,950
Interest expense	(6,771)	(2,121)
Post-employment benefits paid	90	90
Equity income from joint ventures	1,129	6,168
Change in non-cash working capital	(9,307)	19,497
Adjusted funds flow from operations	12,925	14,135

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. There are no 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 4, 2020. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2019 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.

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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 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, 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

March 4, 2020

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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- 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 express 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.

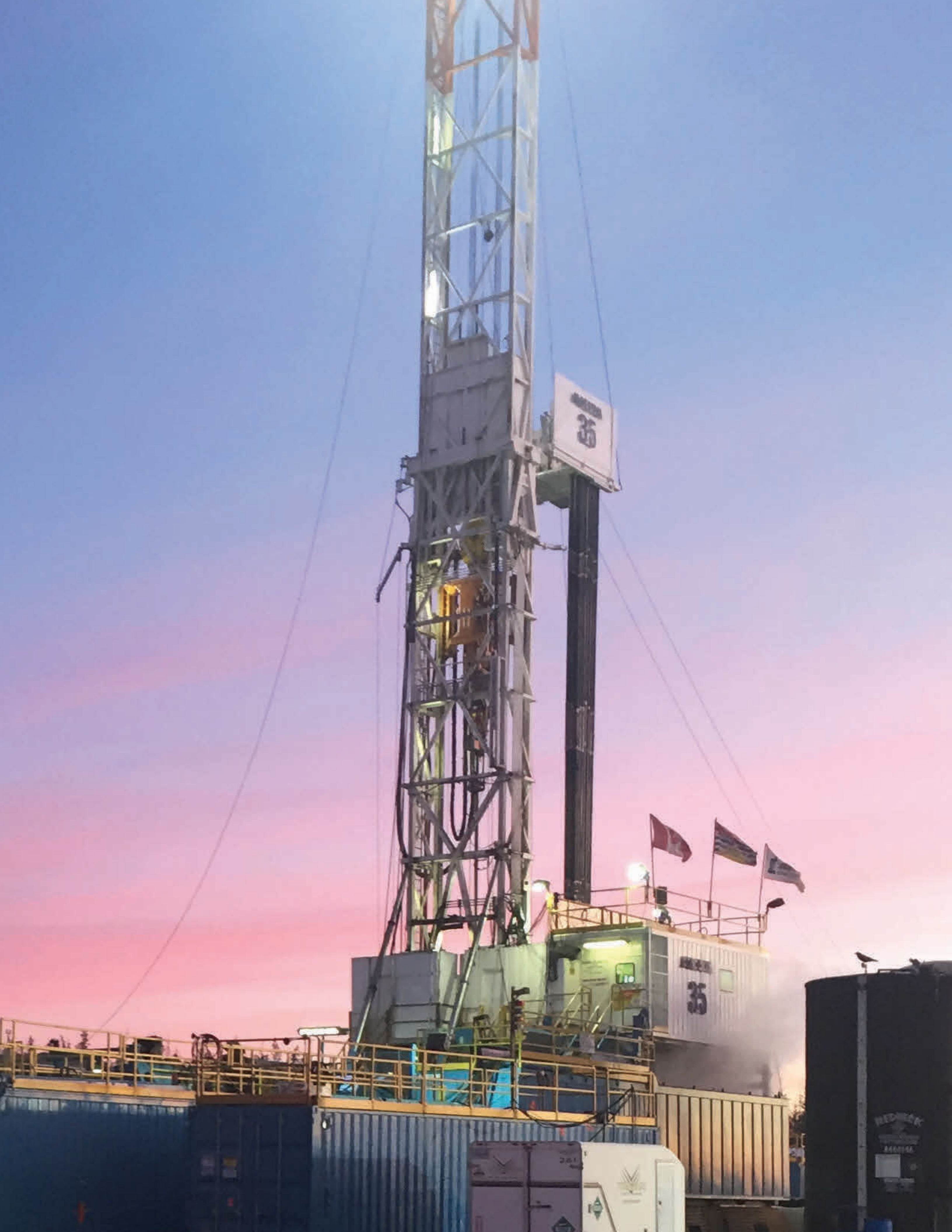
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 4, 2020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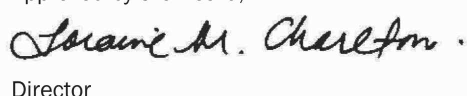
Consolidated Statements of Financial Position

$Thousands		December 31, 2019	December 31, 2018
ASSETS			
Current Assets			
Cash		$ -	$ 1,503
Accounts receivable	Note 12	32,108	42,733
Income taxes recoverable		159	531
Inventory		-	394
Prepaid expenses and other		1,964	2,446
		34,231	47,607
Non-current Assets			
Restricted cash	Note 11	-	756
Other long-term assets		1,959	474
Investments in joint ventures	Note 10	1,648	4,456
Right-of-use assets	Note 8	2,951	-
Property, plant and equipment	Note 9	328,327	350,348
TOTAL ASSETS		$ 369,116	$ 403,641
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	Note 12	$ 18,942	$ 23,317
Deferred revenue		461	367
Dividends payable	Note 16	-	3,367
Current portion of lease obligations	Note 8	1,351	559
Current portion of long-term debt	Note 14	9,322	8,831
		30,076	36,441
Non-current Liabilities			
Deferred income taxes	Note 6	11,272	16,235
Deferred share units	Note 18	222	417
Pension liability	Note 19	5,208	4,712
Lease obligations	Note 8	2,507	-
Long-term debt	Note 14	74,697	74,108
Total Liabilities		123,982	131,913
SHAREHOLDERS' EQUITY			
Class A and Class B shares	Note 17	146,264	146,264
Contributed surplus		5,015	4,701
Accumulated other comprehensive income (loss)		(213)	86
Retained earnings		94,068	120,677
Total Equity		245,134	271,728
TOTAL LIABILITIES AND EQUITY		$ 369,116	$ 403,641

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 2019	2018
REVENUE	Note 4	$ 175,890	$ 118,361
COSTS AND EXPENSES			
Operating and maintenance	Note 5	121,588	86,575
Depreciation and amortization	Note 9	36,763	26,614
Right-of-use asset impairment loss	Note 8	276	-
Selling and administrative	Note 5	36,237	22,611
Total Costs and Expenses		194,864	135,800
Revenue Less Costs and Expenses		(18,974)	(17,439)
EQUITY INCOME FROM JOINT VENTURES	Note 10	1,129	6,168
OTHER INCOME (LOSS)			
Interest income		20	84
Interest expense		(6,771)	(2,121)
Gain (loss) on sale of assets		(476)	567
Net other gains		393	453
Total Other Loss		(6,834)	(1,017)
Loss Before Income Taxes		(24,679)	(12,288)
Income tax expense (recovery)	Note 6	(4,804)	3,651
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(19,875)	(15,939)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not subsequently be reclassified to profit or loss			
Remeasurement of pension liability and other		(284)	364
Items that may be subsequently be reclassified to profit or loss			
Foreign currency translation adjustment		(15)	217
Total Other Comprehensive Income (Loss)		(299)	581
COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ (20,174)	$ (15,358)
NET LOSS PER CLASS A AND CLASS B SHARE	Note 3		
Basic		$ (0.50)	$ (0.65)
Diluted		$ (0.50)	$ (0.65)

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

Consolidated Statements of Changes in Shareholders' Equity

$Thousands	Attributable to the Shareholders of the Company						
	Class A Non-Voting Shares	**Class B Common Shares**	**Total Class A and Class B Shares**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Total Equity**
BALANCE AT DECEMBER 31, 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	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**
Net loss for the year	**–**	**–**	**–**	**–**	**–**	**(19,875)**	**(19,875)**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**(15)**	**–**	**(15)**
Remeasurement of pension liability	**–**	**–**	**–**	**–**	**(284)**	**–**	**(284)**
Stock options charged to expense	**–**	**–**	**–**	**314**	**–**	**–**	**314**
Dividends	**–**	**–**	**–**	**–**	**–**	**(6,734)**	**(6,734)**
BALANCE AT DECEMBER 31, 2019	**$ 144,898**	**$ 1,366**	**$ 146,264**	**$ 5,015**	**$ (213)**	**$ 94,068**	**$ 245,134**

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

Consolidated Statements of Cash Flows

$Thousands		Year Ended December 31	
		2019	2018
OPERATING ACTIVITIES			
Net loss		**$ (19,875)**	$ (15,939)
Non-cash items included in net loss:			
Depreciation and amortization	Note 9	**36,763**	26,614
Asset writedown and impairment loss		**276**	-
Deferred income tax expense (recovery)	Note 6	**(4,872)**	3,508
Defined benefit pension plan expense	Note 19	**37**	298
Stock options and deferred share units expense	Note 18	**120**	230
(Gain) loss on sale of assets		**476**	(567)
Unrealized gain on financial guarantee contracts		**-**	(9)
Change in non-cash working capital	Note 13	**9,307**	(19,497)
Equity income from joint ventures	Note 10	**(1,129)**	(6,168)
Post-employment benefits		**(90)**	(90)
Interest expense		**6,771**	2,121
Interest paid		**(6,598)**	(1,950)
Current income tax expense	Note 6	**67**	143
Income taxes recoverable		**305**	2,812
Net Cash From (Used In) Operating Activities		**21,558**	(8,494)
INVESTING ACTIVITIES			
Net cash consideration for Xtreme shares		**-**	(43,928)
Capital expenditures	Note 9	**(15,238)**	(17,546)
Change in non-cash working capital related to capital	Note 13	**(2,087)**	2,615
Distributions from investments in joint ventures	Note 10	**3,937**	5,808
Change in restricted cash		**756**	1,525
Change in long term assets		**(976)**	-
Proceeds from sale of assets		**1,823**	640
Net Cash Used In Investing Activities		**(11,785)**	(50,886)
FINANCING ACTIVITIES			
Change in debt	Note 14	**1,024**	68,884
Dividends paid	Note 16	**(10,101)**	(7,942)
Change in lease obligations		**(1,873)**	-
Loan commitment fee		**(311)**	(836)
Net Cash From (Used In) Financing Activities		**(11,261)**	60,106
Effect of Foreign Exchange on Cash		**(15)**	217
Increase (Decrease) In Cash		**(1,503)**	943
Cash, beginning of year		**1,503**	560
CASH, END OF YEAR		**$ -**	$ 1,503

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, 2019 and December 31, 2018

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, in Canada and the United States ("US"). 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 First Nations, Métis or Inuit 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, 2019 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 4, 2020.

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 US subsidiaries is the US 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 (“OCI”).

Change in accounting policy

IFRS 16, “Leases” was adopted by the Company effective January 1, 2019. The impact of the adoption of IFRS 16, “Leases”, and the Company’s new accounting policies are disclosed in Note 8 - Leases.

Estimates and judgments

The preparation of these consolidated financial statements required 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 4 - Revenue
- Note 6 - Income Taxes
- Note 8 - Leases
- Note 9 - Property, Plant and Equipment
- Note 12 – Financial Instruments
- Note 19 – Employee Future Benefits
- Note 22 – Business Combination

RESULTS FOR THE YEAR

3. 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 2019	December 31 2018
Net loss ($Thousands)	**$ (19,875)**	$ (15,939)
Weighted average outstanding shares	**39,608,191**	24,551,542
Incremental shares for diluted loss calculation [(1)]	**-**	-
Weighted average outstanding shares for loss per share - diluted	**39,608,191**	24,551,542
Loss per share - basic	**$ (0.50)**	$ (0.65)
Loss per share - diluted	**$ (0.50)**	$ (0.65)

[(1)] For the year ended December 31, 2019, and the year ended December 31, 2018, the outstanding shares 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.

4. Revenue

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:

	Year Ended	
$Thousands	**December 31 2019**	December 31 2018
Contract drilling services	**$ 86,560**	$ 59,806
Rig lease rental	**89,330**	58,555
Total revenue	**$ 175,890**	$ 118,361

The majority of the Company's contracts contain both a lease and a service element. IFRS 15, "Revenue from Contracts with Customers" requires that contract revenue 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 2019, two customers (2018 – three 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.

5. 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:

$Thousands	Year Ended December 31 2019	Year Ended December 31 2018
Expenses		
Salaries, wages and benefits	**$ 96,437**	$ 69,534
Materials and supplies	**21,882**	6,668
Repairs and maintenance	**26,760**	20,969
External services and facilities	**12,746**	12,015
Total expenses	**$ 157,825**	$ 109,186
Allocated to:		
Operating and maintenance	**$ 121,588**	$ 86,575
Selling and administrative	**36,237**	22,611
Total expenses	**$ 157,825**	$ 109,186

6. 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 year.

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:

$Thousands	Year Ended December 31 2019	Year Ended December 31 2018
Current tax expense	**$ 68**	$ 143
Deferred tax expense (recovery)	**(4,872)**	3,508
Total income tax expense (recovery)	**$ (4,804)**	$ 3,651

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 26.63% (2018 – 27.00%) to the reported tax expense (recovery). The rate decrease is due to the reduction in the Alberta corporate tax rate. 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.

$Thousands	Year Ended December 31 2019	December 31 2018
Loss before income taxes	$ (24,679)	$ (12,288)
Expected income tax recovery at the statutory rate	(6,572)	(3,301)
Add (deduct):		
Change in income tax rates	(1,265)	94
Permanent differences	363	(123)
Jurisdictional rate difference	406	1,089
Change in unrecognized deferred tax asset	3,142	6,164
Return to provision adjustment	(390)	(342)
Other	(488)	70
Total income tax expense (recovery)	$ (4,804)	$ 3,651

The deferred tax balance consists of the following:

$Thousands	Property, Plant and Equipment	Defined Benefit Pension Plan Benefits	Non-Capitlal Losses	Other	Total
Balance as at December 31, 2017	$ 13,538	$ (1,319)	$ -	$ 373	$ 12,592
Acquired with acquisition of Xtreme	19,867	-	(17,329)	(2,538)	-
Charged (credited) to net loss	10,614	22	(4,256)	(2,872)	3,508
Charged to other comprehensive loss	-	135	-	-	135
Balance as at December 31, 2018	44,019	(1,162)	(21,585)	(5,037)	16,235
Credited to net loss	**(2,162)**	**(33)**	**(1,933)**	**(744)**	**(4,872)**
Credited to other comprehensive income	**-**	**(91)**	**-**	**-**	**(91)**
Balance as at December 31, 2019	**$ 41,857**	**$ (1,286)**	**$ (23,518)**	**$ (5,781)**	**$ 11,272**

A net deferred tax asset has not been recognized for $54 million (2018 – $53M). This amount is primarily related to non-capital losses carried forward.

Total gross tax losses available to the Company are $324,415,000 with $300,715,000 in the US and $23,700,000 in Canada. The first of these losses will begin to expire in 2031.

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.

7. Segmented Information

The Company has 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 Drilling Corp. ("Xtreme") and AKITA approved an arrangement to combine their respective businesses. The business combination increased AKITA's US operations from four drilling rigs to 17 drilling rigs. Geographical information is provided below:

	Year Ended December 31, 2019			Year Ended December 31, 2018		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Revenue	**$ 48,376**	**$ 127,514**	**$ 175,890**	$ 64,993	$ 53,368	$ 118,361
Revenue less costs and expenses	**$ (17,832)**	**$ (1,142)**	**$ (18,974)**	$ (18,399)	$ 960	$ (17,439)

	December 31, 2019			December 31, 2018		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Property, plant and equipment	**$ 102,870**	**$ 225,457**	**$ 328,327**	$ 116,630	$ 233,718	$ 350,348

LONG-TERM ASSETS

8. Leases

The Company has adopted IFRS 16, "Leases" using a modified retrospective approach from January 1, 2019. Under the modified approach, the Company is not required to restate comparatives for the 2018 reporting year and has applied the standard prospectively.

Practical Expedients Applied

On adoption, the Company used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for lease payments as an expense and not recognizing a right-of-use ("ROU") asset if the underlying asset is of low dollar value;
- accounting for leases with a remaining lease term of less than 12 months as at January 1, 2019, as short-term leases;
- accounting for lease and non-lease components as a single lease component for lease liabilities; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made when applying International Accounting Standards ("IAS") 17, "Leases" and IFRIC 4, "Determining Whether an Arrangement Contains a Lease".

Leasing Activities and Policies

The Company leases various offices, yards, rig equipment, vehicles and office equipment. Lease contracts are typically made for fixed periods of two to five years, but may have extension or termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to January 1, 2019, leases were accounted for under IAS 17, "Leases" and were either classified as finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Finance leases prior to January 1, 2019, were reclassified to ROU assets from property, plant and equipment.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROU asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

ROU assets are measured at cost comprising of the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are comprised of office and IT equipment.

Adjustments Recognized on Adoption of IFRS 16, “Leases”

On adoption of IFRS 16, “Leases” the Company recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17, “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate, adjusted for the lease term. The discount rates range from 5.01% to 6.06%.

For leases previously classified as finance leases, the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the ROU asset and the lease liability at the date of initial application. The measurement principles of IFRS 16, “Leases” are only applied after that date.

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

- property, plant and equipment – decreased by $559,000 due to the transfer of finance lease assets to ROU assets
- ROU assets – increased by $3,356,000
- finance leases – decreased by $559,000
- lease liabilities – increased by $3,356,000

Reconciliation of Commitments to Lease Liability

The following table provides a reconciliation of the commitments as at December 31, 2018 to the Company’s lease liabilities as at January 1, 2019.

Disclosed commitments as at December 31, 2018	$ 4,081
Non-lease components	(844)
Short-term leases	(140)
Adjustment to commitment amount as at December 31, 2018	715
Finance leases under IAS 17, "Leases"	559
Lease liability commitments as at December 31, 2018	4,371
Impact of discounting	(456)
Lease liability as at January 1, 2019	$ 3,915

Continuity of ROU Assets

The ROU assets were measured as if the standard had been applied since the commencement date of the lease but discounted using AKITA's incremental borrowing rate as at the date of initial application (January 1, 2019). There were no onerous lease contracts that would have required an adjustment to the ROU assets at the date of initial application.

$Thousands	Balance as at January 1, 2019	Amortization for the year ended December 31, 2019	Net ROU additions	Balance as at December 31, 2019
Land and property	$ 1,786	$ (965)	$ 922	$ 1,743
Rig equipment	934	(448)	-	486
Office equipment/software	833	(325)	40	548
Vehicles	362	(188)	-	174
Total ROU assets	**$ 3,915**	**$ (1,926)**	**$ 962**	**$ 2,951**

Impairment of Property, Plant and Equipment

During the third quarter of 2019, the Company relocated its US office from Houston, Texas to Denver, Colorado. The Company entered into a sublease for its Houston office lease's remaining four year term. The sublease was an onerous lease contract which resulted in the Company derecognizing the ROU asset of $859,000, recording a lease receivable of $583,000, which is an estimate of the unguaranteed residual value of the sub-lease, and recognizing a ROU asset impairment loss of $276,000. Additionally the Company recognized interest receivable and unearned interest revenue of $65,000. The amount of the lease receivable due within the next twelve months is classified as prepaid expenses and other, while the remaining lease receivable is classified as other long-term assets on the Company's Statement of Financial Position.

Lease Obligations

The Company recorded $183,000 (2018 - $nil) in interest expense related to its lease obligations.

Significant Estimates and Judgments

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of $55,000 have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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 assets. 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, 2019, the Company changed its method for depreciating buildings from declining balance to straight-line. 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, 2019 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, 2019 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	Straight-line	10 to 20 years

The salvage values for the drilling rig equipment ranges from zero to 10% depending on the specific rig component. There are 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, 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
IFRS 16, "Leases" reclass to ROU assets	**-**	**-**	**(546)**	**(546)**
Additions	**138**	**14,986**	**114**	**15,238**
Disposals	**(1,285)**	**(11,667)**	**(366)**	**(13,318)**
Balance as at December 31, 2019	**$ 8,302**	**$ 561,716**	**$ 9,410**	**$ 579,428**

Accumulated Depreciation $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
IFRS 16, "Leases" reclass to ROU assets	**-**	**-**	**(46)**	**(46)**
Disposals	**(118)**	**(10,607)**	**(295)**	**(11,020)**
Depreciation expense	**445**	**33,368**	**648**	**34,461**
Balance as at December 31, 2019	**$ 1,874**	**$ 241,406**	**$ 7,821**	**$ 251,101**

Net Book Value $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
As at December 31, 2019	**$ 6,428**	**$ 320,310**	**$ 1,589**	**$ 328,327**

At December 31, 2019, the Company had $74,000 in Property, Plant and Equipment that was not being depreciated, as these assets were under construction (December 31, 2018 – $286,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $2,302,000 for the year ended December 31, 2019 (2018 - $110,000).

Impairment of Property, Plant and Equipment

IAS 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, 2019, 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, 2019, 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, 2019 (2018 - nil). The Company also concluded that there were no reversals of previous asset impairments required at December 31, 2019.

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, 2019, management determined recoverable amounts for its CGUs using a fair value less costs to dispose of each CGU. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value. External appraisals of the Company's assets were completed in October of 2019 and relied upon for testing at December 31, 2019. As industry and asset conditions have not changed significantly since the time that the appraisals were completed, management feels the appraisals are still valid at year end.

At December 31, 2019, the total fair market value of each of the Company's CGUs was between 7% and 14% of its book value and therefore management concluded that the net book value of each CGU was consistent with the fair value and allowed for variations in the fair value approximations of $14 to $16 million per CGU.

10. Investments in Joint Ventures

The Company conducts certain rig operations via joint ventures with First Nations, Métis or Inuit partners whereby rig assets are jointly owned. Currently, there are eight different First Nations, Métis or Inuit groups with equity investments in six of AKITA's active 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 First Nations, Métis or Inuit 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. All joint ventures operate in Canada.

Active Joint Ventures	AKITA Ownership Interest
AKITA Wood Buffalo Joint Venture 25	85%
AKITA Wood Buffalo Joint Venture 26	85%
AKITA Wood Buffalo Joint Venture 27	85%
AKITA Wood Buffalo Joint Venture 28	70%
Akita Mistiyapew Aski Joint Venture 56	90%
AKITA Equtak Joint Venture 61	50%

Continuity of Investments in Joint Ventures

$Thousands		Investments in Joint Ventures
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
Net income for the year ended December 31, 2019		**1,129**
Distributions for the year ended December 31, 2019		**(3,937)**
Balance as at December 31, 2019	**$**	**1,648**

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.

	December 31, 2019			December 31, 2018		
$Thousands	**AKITA %**	**JV Partner %**	**Total**	AKITA %	JV Partner %	Total
Cash	**$ 220**	**$ 70**	**$ 290**	$ 1,334	$ 261	$ 1,595
Other current assets	**2,610**	**437**	**3,047**	4,704	1,148	5,852
Non-current assets	**55**	**-**	**55**	55	-	55
Total assets	**2,885**	**507**	**3,392**	6,093	1,409	7,502
Total liabilities	**1,237**	**215**	**1,452**	1,637	526	2,163
Net assets	**$ 1,648**	**$ 292**	**$ 1,940**	$ 4,456	$ 883	$ 5,339

	Year Ended December 31, 2019			Year Ended December 31, 2018		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Revenue	**$ 5,289**	**$ 1,120**	**$ 6,409**	$ 22,797	$ 4,737	$ 27,534
Net income and comprehensive income	**$ 1,129**	**$ 245**	**$ 1,374**	$ 6,168	$ 1,246	$ 7,414

11. Restricted Cash

During 2018, AKITA held restricted cash with a financial institution as security for two outstanding letters of credit. At December 31, 2019, the restricted cash balance was $nil (December 31, 2018 - $756,000) as the Company had met its obligations under the original terms of the restriction.

WORKING CAPITAL

12. Financial Instruments

IFRS 9 "Financial Instruments" - Accounting Policies

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

The Company discloses its financial instruments within a hierarchy prioritizing the inputs to fair value measurements at the following three levels:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data.

Classification and measurement

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, 2019, the Company's financial assets in this category include 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, 2019, the Company's financial liabilities 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, 2019, 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, 2019, the Company held no financial instruments in this category.

Impairment of financial assets

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

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.

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. 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.

The terms of the Company's contracts generally require payment within 30 days. The Company continuously monitors the recoverability of its accounts receivable 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, 2019	December 31, 2018
Within 30 days	$ 23,566	$ 30,793
31 to 60 days	6,868	9,920
61 to 90 days	1,989	673
Over 90 days	285	1,615
Estimated credit losses	(600)	(268)
Total accounts receivable	**$ 32,108**	$ 42,733

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, 2019, this risk was limited by positive cash flows from operations and by 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
US debt - principal	$ 2,945	$ 3,539	$ 6,484
Bank credit facility - principal	6,377	71,158	77,535
	9,322	74,697	84,019
US debt - interest	527	165	692
Bank credit facility - interest	4,096	8,500	12,596
Total	**$ 13,945**	**$ 83,362**	**$ 97,307**

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 geographical divisional operations are primarily denominated in their local currency with limited exposure to foreign currency exchange transaction risk through 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 USD. 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 through 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:

$Thousands	**December 31, 2019**	December 31, 2018
Trade payables	**$ 3,516**	$ 3,905
Statutory liabilities	**923**	302
Accrued expenses	**14,413**	19,020
Post-employment benefits	**90**	90
Total accounts payable and accrued liabilities	**$ 18,942**	$ 23,317

13. Change in Non-Cash Working Capital

	Year Ended	
$Thousands	**December 31, 2019**	December 31, 2018
Change in non-cash working capital:		
Accounts receivable	**$ 10,625**	$ 2,780
Inventory	**394**	586
Prepaid expenses and other	**482**	(1,504)
Accounts payable and accrued liabilities	**(4,375)**	(18,764)
Deferred revenue	**94**	-
Finance leases	**-**	20
Change in non-cash working capital	**$ 7,220**	$ (16,882)
Pertaining to:		
Operating activities	**$ 9,307**	$ (19,497)
Investing activities	**(2,087)**	2,615
Change in non-cash working capital	**$ 7,220**	$ (16,882)

DEBT AND EQUITY

14. Debt

USD Debt

The Company has long-term debt of $6,484,000 ($5,135,000 USD). The loan is payable in monthly instalments of $228,000 USD over 19 months, with a balloon payment due at the end of the term. The borrowing has an implied interest rate of approximately 12.9 percent. The effective annual rate agreement is approximately 11.7 percent. There are no debt covenants related to this debt agreement.

Operating Loan Facility

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication and three other national banks in the syndication. The operating loan facility totals $125,000,000 with the term ending in 2023. The interest rate ranges from 50 to 200 basis points over prime interest rates depending on the Funded Debt(1) 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 Quarters ending December 31, 2019 and March 31, 2020, the Funded Debt[1] to EBITDA[1] Ratio shall not be more than 4.00:1.00;

   (ii) for the Fiscal Quarters ending June 30, 2020 and September 30, 2020, the Funded Debt[1] to EBITDA[1] Ratio shall not be more than 3.50:1.00:

   (iii) for the Fiscal Quarter ending December 31, 2020 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) The EBITDA[1] to Interest Expense[1] ratio, calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis, shall not fall below 3.00:1.00.

The facility also includes a borrowing base calculation which is 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.

The Company borrowed $77,535,000 from this facility as at December 31, 2019 (December 31, 2018 - $74,991,000).

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

Continuity of Debt

$Thousands		Total Debt
Balance at December 31, 2018	$	82,939
Drawn on credit facility		16,550
Repayment of debt		(15,470)
Total debt as at December 31, 2019	**$**	**84,019**

$Thousands		Total Debt
Current portion	$	9,322
Long-term portion		74,697
Total debt as at December 31, 2019	**$**	**84,019**

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, 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
March, 2019	**April, 2019**	**$ 0.085**	**$ 3,367**
May, 2019	**July, 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, 2019 and December 31, 2018 are:

Number of shares	Class A Non-Voting	Class B Common	Total
Shares outstanding	**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.

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, 2019	December 31, 2018
Reserved under the current stock option plan	**3,100,000**	3,100,000
Balance at beginning of year	**644,500**	822,000
Granted	**(352,500)**	(177,500)
Available for future issuance	**292,000**	644,500

A summary of the Company's stock options is presented below:

	2019			2018		
	Number of Options	Weighted Average Exercise Price		Number of Options	Weighted Average Exercise Price	
Options outstanding at January 1	**1,053,500**	**$**	**9.63**	876,000	$	10.45
Granted	**352,500**	**$**	**3.03**	177,500	$	5.62
Options outstanding at December 31	**1,406,000**	**$**	**8.20**	1,053,500	$	9.63
Options exercisable at December 31	**914,000**	**$**	**9.99**	756,000	$	10.74

The following table summarizes outstanding stock options at December 31:

			2019			2018		
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**	**0.2**	**130,000**	130,000	1.2	130,000
5	$	10.32	**76,000**	**1.2**	**76,000**	76,000	2.2	76,000
5	$	10.86	**82,500**	**2.2**	**82,500**	82,500	3.2	82,500
5	$	13.81	**87,500**	**3.7**	**87,500**	87,500	4.7	87,500
5	$	16.02	**115,000**	**4.7**	**115,000**	115,000	5.7	115,000
5	$	10.28	**90,000**	**5.3**	**90,000**	90,000	6.2	72,000
5	$	7.13	**197,500**	**6.3**	**158,000**	197,500	7.3	118,000
5	$	8.26	**97,500**	**7.3**	**58,500**	97,500	8.3	39,000
5	$	5.62	**177,500**	**8.7**	**71,000**	177,500	9.7	33,500
5	$	3.93	**352,500**	**9.2**	**45,500**			
Weighted Average Contractual Life				**6.0**			5.9	

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:

	2019		2018	
	Deferred Share Units (#)	**Fair Value ($000's)**	Deferred Share Units (#)	Fair Value ($000's)
Deferred share units outstanding at January 1	**102,370**	**$ 417**	52,732	$ 388
Granted	**71,711**	**273**	46,117	238
Issued in lieu of dividends	**12,930**	**39**	3,521	22
Change in fair value		**(507)**		(231)
Deferred share units outstanding at December 31	**187,011**	**$ 222**	102,370	$ 417

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	
$Thousands	**December 31, 2019**	December 31, 2018
Stock option expense	**$ 314**	$ 201
Deferred share unit expense	**(194)**	29
Total share-based compensation expense	**$ 120**	$ 230

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.

	2019	2018
Risk-free interest rate	**1.70%**	2.30%
Expected volatility	**40.00%**	35.00%
Dividends yield rate	**6.50%**	5.40%
Option life	**5.4 years**	5.4 years
Weighted average share price	**$ 3.93**	$ 5.62
Forfeiture rate	**0.00%**	0.00%
Fair value of options	**$ 0.96**	$ 1.29

19. Employee Future Benefits

The Company has a defined contribution pension plan, registered under the Alberta Employment Pension Plans Act, which 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 pension 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 10, 2020, and was utilized in measuring the December 31, 2019 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 pension plan is determined using the projected unit credit method. The defined

benefit pension 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	2019	2018
Actuarial present value of defined benefit obligation at January 1	$ 4,802	$ 4,922
Interest cost	173	171
Current service cost	37	298
Benefits paid	(90)	(90)
Unrealized actuarial (gain) loss	376	(499)
Actuarial present value of defined benefit obligation at December 31	$ 5,298	$ 4,802

$Thousands	2019	2018
Pension liability allocated to:		
Accounts payable and accrued liabilities	$ 90	$ 90
Non-current liabilities	5,208	4,712
Pension liability outstanding at December 31	$ 5,298	$ 4,802

Key Assumptions

	Year Ended	
	December 31, 2019	December 31, 2018
Discount rate at beginning of the year	3.6%	3.3%
Anticipated retirement age of plan members	63 to 67 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, 2019	December 31, 2018
Defined benefit pension plan		
Interest cost	$ 173	$ 171
Service cost	37	298
Expense for defined benefit plan	210	469
Expense for defined contribution plans	3,156	2,477
Total expense	$ 3,366	$ 2,946

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 $5,208,000 at December 31, 2019 (December 31, 2018 - $4,712,000). 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, 2019, a key assumption is the discount rate of 3.0% (2018 – 3.6%). From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $717,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a $594,000 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 $105,000. 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, 2019, the Company had 11 drilling rigs with multi-year contracts. Of these contracts, nine are due to expire in 2020 and two in 2021.

The Company has entered into a two year contract with a related party to provide sponsorship and advertising at an annual cost of $175,000.

At December 31, 2019, the Company had capital expenditure commitments of $1,406,000 (2018 – $3,302,000).

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 – General Information). The transactions and year-end balances with those affiliates are presented below:

	Year Ended			
$Thousands	**December 31, 2019**		December 31, 2018	
Revenue (computer services, rent)	**$**	**84**	$	84
Purchases				
Sponsorship and advertising (Note 20)	**$**	**365**	$	353
Selling and administrative	**$**	**53**	$	57
Operating	**$**	**458**	$	-
Year-end accounts payable	**$**	**70**	$	4

b) Joint ventures and joint venture partners

The Company is related to its joint ventures and joint venture partners. The joint ventures' and joint venture partners' transactions and year-end balances with AKITA are presented below:

	Year Ended	
$Thousands	**December 31, 2019**	December 31, 2018
Operating	**$ 773**	$ 3,288
Selling and administrative	**$ 103**	$ 448
Year-end due to AKITA from partners	**$ 1,031**	$ 278
Year-end due to AKITA from joint ventures	**$ 885**	$ 1,021

c) Legal fees

The Company incurred legal fees of $134,000 (2018 - $368,000) 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, 2019. At December 31, 2019, $21,000 (December 31, 2018 - $5,000) 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:

	Year Ended	
$Thousands	**December 31, 2019**	December 31, 2018
Salaries, director's fees and other short-term benefits	**$ 2,344**	$ 2,033
Post-employment benefits	**$ 141**	$ 415
Share-based payments	**$ 765**	$ 613
Year-end compensation payable	**$ -**	$ -

22. Business Combination

Effective September 11, 2018, AKITA and 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 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, the Xtreme assets 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, the 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.

10 YEAR FINANCIAL REVIEW

$Thousands (except per share)	Annual Ranking	2019	2018	2017
Summary of Operations				
Revenue	**3**	**$ 175,890**	$ 118,361	$ 71,198
Income (loss) before income taxes	**8**	**$ (22,679)**	$ (12,228)	$ (53,230)
Income taxes expense (recovery)	**8**	**$ (4,804)**	$ 3,651	$ (14,053)
Net income (loss)	**8**	**$ (19,875)**	$ (15,939)	$ (39,177)
As a percentage of average shareholders' equity	**8**	**(8.1%)**	(5.9%)	(22.5%)
Earnings (loss) per Class A and Class B share (basic)	**7**	**$ (0.50)**	$ (0.65)	$ (2.18)
Funds flow from operations	**9**	**$ 12,862**	$ 14,135	$ 6,607
As a percentage of average shareholders' equity	**9**	**5.2%**	5.2%	3.8%
Financial Position at Year End				
Working capital (deficiency)	**9**	**$ 4,155**	$ 11,166	$ 15,528
Current ratio	**9**	**1.14:1**	1.31:01	2.02:1
Total assets	**2**	**$ 369,116**	$ 403,641	$ 207,497
Shareholders' equity	**4**	**$ 245,134**	$ 271,728	$ 174,455
per share	**10**	**$ 6.19**	$ 6.86	$ 9.72
Other				
Capital expenditures (net)	**9**	**$ 15,238**	$ 17,546	$ 20,348
Depreciation and amortization	**1**	**$ 36,763**	$ 26,614	$ 27,126
Dividends paid	**1**	**$ 10,101**	$ 7,942	$ 6,100
per share	**10**	**$ 0.17**	$ 0.34	$ 0.34

Note: Readers should be aware that these revenue amounts reported for 2012 through 2019 include revenue solely generated by the Company from its wholly-owned operations.

2016	2015	2014	2013	2012	2011	2010
$ 61,061	$ 112,488	$ 165,274	$ 168,111	$ 203,440	$ 199,934	$ 145,138
$ 7,535	$ (44,544)	$ 28,121	$ 35,682	$ 38,413	$ 31,762	$ 10,932
$ 2,206	$ (10,579)	$ 7,042	$ 9,167	$ 9,658	$ 8,409	$ 3,462
$ 5,329	$ (33,965)	$ 21,079	$ 26,515	$ 28,755	$ 23,353	$ 7,470
2.4%	(14.2%)	8.3%	11.3%	13.5%	12.1%	4.1%
$ 0.30	$ (1.89)	$ 1.17	$ 1.48	$ 1.60	$ 1.29	$ 0.41
$ 34,500	$ 38,510	$ 56,195	$ 57,619	$ 59,474	$ 42,895	$ 32,798
15.7%	16.0%	22.2%	24.6%	28.0%	22.3%	17.9%
$ 34,907	$ 16,002	$ (5,028)	$ 40,645	$ 31,214	$ 44,265	$ 61,341
4.49:1	2.45:1	0.90:1	2.93:1	1.70:1	2.37:1	4.04:1
$ 257,907	$ 254,516	$ 340,926	$ 291,748	$ 292,994	$ 247,130	$ 218,587
$ 219,646	$ 220,200	$ 259,841	$ 245,288	$ 223,998	$ 201,104	$ 183,739
$ 12.24	$ 12.27	$ 14.48	$ 13.65	$ 12.49	$ 11.15	$ 10.19
$ 13,193	$ 17,960	$ 103,949	$ 35,113	$ 65,356	$ 54,509	$ 36,293
$ 23,959	$ 36,748	$ 30,200	$ 26,825	$ 24,342	$ 20,933	$ 24,540
$ 6,100	$ 6,101	$ 6,015	$ 5,567	$ 5,038	$ 5,066	$ 5,079
$ 0.34	$ 0.34	$ 0.34	$ 0.32	$ 0.28	$ 0.28	$ 0.28

AKITA
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CORPORATE INFORMATION

Directors

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President and CEO
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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
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President,
Team Spruce Meadows Inc.,
Chairman of the Board,
AKITA Drilling Ltd.
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C. Perry Spitznagel, Q.C.
Vice Chairman,
Bennett Jones LLP
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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
Vice President, Canadian Operations
Corporate Secretary and Legal Counsel

Craig W. Kushner
Director of Human Resources

Darcy Reynolds
Vice President, Finance and
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Karl A. Ruud
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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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